The political economy of fiscal mobilisation and management of sterling from 1958 to 1972

Dobashi, Yasuto

Awarding institution:
King's College London

The political economy of fiscal mobilisation and management of sterling from 1958 to 1972

Dobashi, Yasuto

Awarding institution:
King's College London

THE POLITICAL ECONOMY OF FISCAL MOBILISATION AND MANAGEMENT OF STERLING FROM 1958 TO 1972

Yasuto Dobashi

Department of Political Economy

King's College London

PhD Thesis

Abstract

This thesis will explore and elucidate how Britain managed sterling through mobilisation of monetary and fiscal measures, focusing on the period from 1958 to 1972. This thesis will also provide an examination of Anglo-American monetary and fiscal policy co-ordination from the British perspective, in the context of currency management, in order to explore the political economic dynamics of the period.

The late 1950s saw the beginnings of a turbulent decade in which the post-World War II economic regime, the so-called Bretton Woods system, became destabilised. The gold outflow from the United States that emerged in 1958 was detrimental to the dominant position of the dollar. Perennial crises befell sterling, in turn causing profound repercussions within the international market, resonating throughout world politics. Cohesive response to defend the existing economic structure ensued and the international financial community set out to forge and strengthen various schemes and countermeasures, the primary aim of which was to stabilise the value of the two reserve currencies without hampering economic growth. Countermeasures emerged which consisted of monetary policies including direct and indirect market intervention, targeted fiscal policies, and regulation on capital movement. The economic issues and attempts at stabilisation of the currencies caused reverberations through domestic politics and international relations.

Through analysis of currency management and monetary and fiscal policies, this thesis uses archival sources to explore and clarify how sterling was managed in the period between 1958 and 1972, focusing mainly on the British perspective. This thesis delineates the link between the co-ordination of monetary and fiscal policies as a defining feature of the management of sterling. This thesis also explores ways of comprehending theoretical positions and arguments of international political economy and state theory, through the comparison of these theories with economic and political history.

Table of Contents

Table of Figures

Acknowledgements

I would like to express my gratitude to my supervisors, Dr Michael Kandiah and the late Professor Richard Roberts, whose expertise and support was invaluable in the writing of this thesis. I wish also to express my gratitude to Professor Keith Hamilton for taking on the role of my second supervisor, and Dr Andrew Blick for his support during the final stages of my work. Special thanks are extended to my examiners Professor Jim Tomlinson and Professor Glen O'Hara. I must also thank Dr Virginia Preston for her support in the mechanics and processes of writing this thesis. I am also grateful to Professor Forrest Capie for reading and commenting on my chapters at the very early stages, and to Ryland Thomas at the Bank of England for his comments. Thanks also go to those at the Monetary History Group. I must also acknowledge the support I have received from archive staff at the Bank of England, the National Archives at Kew, and King's College, Cambridge. I am most grateful to The Kikawada Foundation Fund, Japan, for the financial support I received.

I must highlight the intellectual stimulation I received during my BA and MA studies at Keio University, under Professor Masaru Kaneko, who is largely responsible for setting me on the road towards a PhD. I am grateful to Professor Junichi Hasegawa, Professor Eisaku Ide and Professor Tokutaro Shibata for their critiques and support during my studies. Thanks are also extended to Professor Noriko Tsuya for her encouragement and support in setting me on my way to pursuit of a PhD. Thanks also go to staff and contributors at the Japanese Ministry of Finance and the Japanese National Institute of Population and Social Security Research, whose input broadened my perspective and understanding.

I must extend thanks to my parents and my sister for their support throughout my studies. Finally, I am extremely grateful to my wife and Mr Boucho, without whom I would not have completed this thesis.

Abbreviations

BIS	Bank for International Settlements
CBI	Confederation of British Industry
CEA	Council of Economic Advisers
CGT	capital gains tax
CT	corporation tax
DEA	Department of Economic Affairs
EEC	European Economic Community
EFTA	European Free Trade Association
FAM	family allowances
Fed	Federal Reserve
FRBNY	Federal Reserve Bank of New York
GAB	General Arrangements to Borrow
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
IMF	International Monetary Fund
IR	Inland Revenue
OECD	Organisation for Economic Co-operation and Development
OEEC	Organisation for European Economic Co-operation
REP	regional employment premium
SDRs	special drawing rights
SET	selective employment tax
TB	Treasury Bills
TUC	Trades Union Congress
VAT	value added tax
WP3	Working Party 3

Chapter 1: Introduction: History, theories of international political economy, and state theory

This thesis reinvestigates the political process of economic policy formation under the late Bretton Woods system between 1958 and 1972. It aims to elucidate how, in this period, UK domestic economic policies and international currency management were mutually shaped and reshaped in the political arena. Then, this thesis will compare these historical aspects with the theories of international political economy and state theory, in order to reconsider the frameworks from a detailed historical perspective.

The interaction between domestic economic policies and international economic relations, congruent with liberalised markets, has become an analytically challenging issue with the haunting here of a 'spectre', referring to the endogenous instability of capitalism as graphically depicted in the 2008 Great Financial Crisis.[1] Analytical challenges have arisen from tremors in the paradigm of international economic relations and economic policies as bound to liberal market discipline, and founded on rule-based institutions leading to stable economic growth and sound markets.[2] This disillusion with the 'great moderation' upheld by the liberal agenda has triggered not only economic turmoil but also divisive internal and external conflicts. Arising from this turmoil,

[1] Andrew Gamble, *The Spectre at the Feast: Capitalist Crisis and the Politics of Recession* (Basingstoke: Palgrave Macmillan, 2009), Introduction.
[2] This account, in relation to the liberal international order, is detailed in section 2 of this chapter.

fiscal and monetary policies, and international co-operative or harmonised economic relations are caught within the momentum of change.

This raises the colossal question: how should interrelations amongst aspects of international political economy and domestic fiscal and monetary policies of states be understood? Here, reinvestigation of the management of currencies under the late Bretton Woods system from 1958 to 1972 provides proper context for examination of these complex interrelations. During the period of the late Bretton Woods system, while uncertainty surrounding the currencies in the global financial market heightened, states embarked on co-ordinating their own fiscal and monetary policies to navigate the financial turmoil in which confidence in sterling and the dollar waned. Simultaneously, global governance through international financial institutions gained momentum in the 1960s, and co-operative monetary relations in the international arena accelerated. In other words, fiscal and monetary policies conducted by states playing different tunes harmonised on the international political stage, reverberating in the domestic economic and political terrain, and *vice versa*. In this sense, revisiting the late Bretton Woods era and untangling the intricately woven history of political economy might provide a useful new perspective on the interrelation between domestic economic policies and external economic and political factors.

1.1 Currency management through fiscal and monetary policies 1958-1972

The defects of the Bretton Woods system and its global issues became apparent in 1958: the gold drain from the US saw the dollar's status as a 'key currency' wane, with international financial turbulence occurring intermittently in the years that followed. US foreign aid, military expenditure, and foreign private investment since the end of World War II had been the main factors behind the capital outflow, and with the expanding trade deficits, provoked distrust of the dollar.[3] Consequently, the US balance of payments shifted from surplus to deficit.[4] To make matters worse, the expansion of the Euro-dollar market and the preference of monetary authorities for the accumulation of gold heightened after *de facto* currency convertibility began among Western European countries in 1958, accelerating gold and capital outflow from the US. Eventually, confidence in the dollar as a reserve currency of the Bretton Woods system waned, and with it confidence in sterling, which had been under strain since World War II, wavered.[5] Meanwhile, with the US at the epicentre, this contagious turmoil transmitted to the international financial market.

---

[3] Allan H. Meltzer, *A History of the Federal Reserve, Vol.2: Books 1-2*, *1951-1986* (Chicago: The University of Chicago Press, 2009), p.26. Fred L. Block, *The Origins of International Economic Disorder, A Study of United States International Monetary Policy from World War II to the Present* (London: University of California Press, 1977), chapter 7.

[4] Harold James, *International Monetary Cooperation Since Bretton Woods* (New York: Oxford University Press, 1996), pp.154-5.

[5] For the establishment of currency convertibility, see James Ellison, *Threatening Europe: Britain and the Creation of the European Community, 1955-58* (Basingstoke: Macmillan, 2000), chapter 8. For UK attitudes towards convertibility, see Alan S. Milward, *The European Rescue of the Nation-State* (London: Routledge, 1992), pp. 347-56. Milward emphasised that the UK prioritised restoring the worldwide role of sterling, and that it paid less attention to advancing Anglo-Six economic relations. See also P. L. Cottrell, 'The Bank of

As an early measure to tackle this instability, in the late 1950s, US President Dwight Eisenhower attempted to put pressure on West Germany to share the burden of US military foreign expenditure in order to reduce public spending, which proved largely unsuccessful.[6] As the global market observed these unsuccessful negotiations and the hiatus of US projects for forging a breakthrough on the balance of payments stalemate, the speculative momentum around the dollar surged, entailing volatility in gold prices and exchange parities, and international financial instability became a growing concern. The issue of volatility of gold prices was the crux of this instability since most currencies maintained their exchange parities against the dollar, which was backed by gold. Therefore, fluctuation in gold prices created international instability in exchange rates. As gold prices increased, dollar prices decreased, causing concern for official and private holders of dollars in reserves or assets. Thus, fiscal management mindful of the foreign reserves position continued into a new administration in the following decade.[7]

In 1960, the incoming Kennedy administration aimed to defend the gold price. Due to high foreign investment and overinflating public expenditure abroad, US foreign liabilities exceeded its gold reserves and the 'gold rush' occurred in 1960.[8] In the analysis of Robert Triffin, the matter of the dollar shortage

---

England in its International Setting, 1918-1972', in Richard Roberts and David Kynaston (eds.), *The Bank of England: Money, Power and Influence, 1694-1994* (Oxford: Clarendon Press, 1995), pp.130-1.
Federico Romero, 'Interdependence and integration in American eyes: from the Marshall Plan to currency convertibility', in Alan S. Milward, Frances M. B. Lynch, Ruggero Ranieri, Federico Romero and Vibeke Sørensen, *The Frontier of National Sovereignty: History and theory 1945-1992* (London: Routledge, 1993), p.179.

[6] Francis J. Gavin, *Gold, Dollars, and Power, The Politics of International Monetary Relations, 1958-1971* (Chapel Hill: The University of North Carolina Press, 2004) pp.34-5, 45-50.

[7] Gavin, *Gold, Dollars, and Power*, pp. 55-7.

[8] Barry Eichengreen, *Globalizing Capital: A History of the International Monetary*

transformed into the issue of how to control the dollar 'glut' accumulated by countries in a trade surplus against the US.[9] This global overflow of dollars inevitably stimulated the reform of currency management in the international arena.

Notwithstanding incessant currency crises rampant in Western Europe, the US and Canada, a variety of statistics indicate that the later years of the Bretton Woods system, particularly from 1959 to 1971, can be characterised as a stable period and its 'heyday'.[10] This paradox of a financial system that was apparently tranquil, at least by the cursory observation of the broad statistics, while at the same time plagued by the reality of intermittent serious currency crises, was the artefact of international and domestic management of monetary and fiscal policies, out of which came schemes such as the gold pool and Federal Reserve swap lines. With this series of measures, the US embarked on stabilising the currency values.[11] Other co-operative international monetary schemes were gradually introduced through the IMF to provide international liquidity, such as General Arrangements to Borrow in 1962 and Special Drawing

---

System, Second Edition (Princeton: Princeton University Press, 2008), p.114.

[9] Robert Triffin, *Gold and the Dollar Crisis: The Future of Convertibility* (New Haven: Yale University Press, 1960). Benjamin J. Cohen, *Organizing the World's Money: The Political Economy of International Monetary Relations* (New York: Basic Books, 1977), pp.98-9. Robert Triffin pointed out that the preservation of confidence in the dollar was incompatible with satisfaction of the international demand for dollar liquidity. Paradoxically, rather than result in the occurrence of this 'Triffin Dilemma', the burst of international liquidity in the Euro-dollar market caused speculative pressure surrounding the dollar and sterling. Kathleen Burk and Alec Cairncross, *Goodbye Great Britain: The 1976 IMF Crisis* (New Haven: Yale University Press, 1992), p.8.

[10] Michael D. Bordo, 'The Bretton Woods International Monetary System: A Historical Overview', in Michael D. Bordo and Barry Eichengreen (eds.), *A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform* (Chicago: The University of Chicago Press, 1993), pp.4-28.

[11] Charles A. Coombs, *The Arena of International Finance* (New York: John Wiley & Sons, 1976), pp.71-2. Anna J. Schwartz, *Money in Historical Perspective* (Chicago: The University of Chicago Press, 1987), p.340.

Rights in 1968.[12] In spite of these measures, speculation lingered surrounding the currencies, particularly the dollar and sterling. This provoked several devaluations and revaluations, and resulted in the demise of the gold pool subsequent to the emergence of 'two-tier' gold prices. Consequently, at the point when the US abdicated from its role to underpin the dollar value, which reflected in the closure of the 'gold window' and the commencement of a floating exchange rate system or 'dirty float', the Bretton Woods system's *de facto* implosion was heralded.

Although the above general account is mainly presented based on the chronological developments of economic policies, currency management had a great impact on policies in the broader sense. In the existing research, a perspective on this era has been deepened from the point of view of international relations and the Anglo-American relationship. Dobson assessed that 'the fortunes of sterling, the US dollar, the Bretton Woods system, and Western defence were all interconnected and they all affected the special relationship.'[13] Following this, Gavin asserted that the 'dollar and gold question was the most important issue of American foreign economic policy from the late 1950s to the early 1970s […] these monetary questions influenced fiscal policy'

---

[12] A great deal of existing research has analysed the SDRs and GAB. For a major work regarding these schemes, see James, *International Monetary Cooperation Since Bretton Woods*. For the SDRs, see Paul Volcker and Toyoo Gyohten, *Changing Fortunes: The World's Money and the Threat to American Leadership* (New York: Times Books, 1992); Robert Solomon, *The International Monetary System, 1945-1981* (New York: Harper and Row, 1982).

[13] Alan P. Dobson, *Anglo-American Relations in the Twentieth Century: of friendship, conflict and the rise and decline of superpowers* (Abingdon: Routledge, 1995), p.125.

Gilpin argued that American hegemony was based on dollar supremacy in the Bretton Woods system, and the nuclear deterrent. Robert Gilpin, *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987), p.134.

and 'debates over America's military strategy in Europe'.[14] Hence, there is no doubt that currency management was not only part of foreign economic policy or international monetary co-operation but was also intertwined with wider state strategies in the global political arena, including fiscal policies and military strategies.

Despite these assessments, there remains a considerable gap in analyses relating to currency management, fiscal policies and monetary policies.[15] This gap has produced conflictive views, however, analysis of UK economic history of the late Bretton Woods era reveals how these components were inextricably intertwined.

The history of the UK economy in the post-war era can be delineated as perennial crises and ensuing *ad hoc* economic management, and 'relative decline'.[16] In this climate, economic policies became embroiled in the 'stop-go'

---

[14] Gavin, *Gold, Dollars, and Power,* p. 197.

[15] A notable exception is Catherine R. Schenk, *The Decline of Sterling: Managing the Retreat of an International Currency 1945-1992* (Cambridge: Cambridge University Press, 2010). Also, Rajarshi Roy, The Battle of the Pound: The Political Economy of Anglo-American Relations, 1964-1968 (unpublished PhD thesis, London School of Economics and Political Science, 2000).

[16] Andrew Shonfield, *British Economic Policy Since the War* (London: Penguin Books, 1958), pp. 254-9. Shonfield focused on 'technical deficiencies' and inadequate levels of investment in UK industries from the 1870s, which caused limited growth of productivity.

Rubinstein played down the decline of the British economy because of the existence of the City's special presence, in W. D. Rubinstein, *Capitalism, Culture and Decline in Britain 1750-1990* (London: Routledge, 1993). This argument linked with research focusing on the continuity of British global financial supremacy, which emphasised national interests and assessed the UK's national economy, see P. J. Cain and A. G. Hopkins, *British Imperialism: Crisis and Deconstruction 1914-1990* (London: Longman, 1993), chapters 11 and 12. Contrary to this, Wiener asserted that the British economic structure, which had strongly relied on financial markets, caused the decline of its industrial competitiveness and resulted in the low-performance of the British economy, in Martin J. Wiener, *English Culture and the Decline of the Industrial Spirit 1850-1980* (Cambridge: Cambridge University Press, 1981). A similar argument can be seen in Robert Bacon and Walter Eltis, *Britain's Economic* dichotomy, and its failure, at least in hindsight, led to drastic measures in the form of devaluation in 1949 and 1967 to rectify the 'fundamental disequilibrium'. Both Conservative and Labour governments struggled to tackle balance of payments deficits through fiscal and monetary policies, tinkering with various regulations to check aggregate demand, wage increase and inflation.[17] From the late 1950s to 1964, the Conservative government repeatedly endeavoured to suppress aggregate demand through incomes policy, credit restraints and regressive taxation, such as increase in duties, and relied on international monetary schemes to stabilise the currencies. Although the succeeding Labour government led by Harold Wilson failed to desert the 'stop-go agenda', it also mobilised various fiscal measures to tackle the balance of payments issue, and sought to reconcile the trade unions to accept legalised incomes policy.

However, divergent characterisations can be ascribed to the economic policies of these governments. Bale pointed out that the Wilson Labour government held that British long-term economic problems ought to be solved with long-term 'organisational or structural solutions', and the delay of devaluation.[18] If the account of Bale holds significant credence, it is key to analyse such 'long-term' solutions (such as taxation), as interconnected with currency management including international monetary co-operation, which

Problem: Too Few Producers (Basingstoke: Macmillan, 1976). This work emphasised de-industrialisation and low productivity as the cause of 'decline'. On the other hand, Tomlinson argued that the UK economy was measured by various benchmarks such as standards of living and economic performance. In the context of 1960s, the term 'decline' was used in political rhetoric. Therefore, the definition of 'decline' is a contentious issue in itself. Jim Tomlinson, 'Inventing 'decline': the falling behind of the British economy in the postwar years', *The Economic History Review*, Vol.49, No.4, 1996, pp.731-57.

[17] Although there are numerous accounts on the economic and political climate of the 1960s, for a general narrative, see Alec Cairncross, *Managing the British Economy in the 1960s: A Treasury Perspective* (Basingstoke: Macmillan, 1996).

[18] Tim Bale, 'Dynamics of a Non-Decision: the 'Failure' to Devalue the Pound, 1964-7', *Twentieth Century British History*, Vol.10, No.2, 1999, pp.192-217.

were designed to avoid detrimental effects on the international monetary system and to tackle the domestic economic issues.[19]

Notwithstanding Bale's account, taking the devaluation of 1967 as an example, the existing research has paid little attention to the links amongst fiscal, monetary and international aspects and has produced divergent analyses. Oliver has suggested that the Labour government took inadequate measures without felicitous external economic strategy in the face of the proposals of officials at the Bank of England and Treasury, who urged the government take action to cement confidence in sterling.[20] This argument contended that the Labour government's policy actions ultimately failed to defend the sterling parity.

In stark contrast to the argument of Oliver, Schenk explicated from the perspective of international monetary relations that the 'risk of a collapse of the sterling exchange rate […] posed dangers not only for Britain but for the system as a whole' and 'sterling's weakness could be an effective source of bargaining power for Britain, in international financial relations and in Anglo-American strategic negotiations alike'.[21]

It is clear that there exists distance in the analyses offered by Schenk and Oliver. Schenk argued that sterling's weak position created favourable international political milieu for achieving successful international support for sterling and that this shaped international relations. On the other hand, Oliver emphasised the failure of the Labour government that took little effective action

[19] There is no doubt that these long-term solutions included industrial policies for modernisation or administrative reform such as establishment of the Department of Economic Affairs, however, these issues are out of scope of this thesis.
[20] Michael J. Oliver, 'The Management of Sterling, 1964-1967', *The English Historical Review*, Vol.126, No.520, 2011, pp.582-613.
[21] Schenk, *The Decline of Sterling*, pp.418, 204.

to defend sterling's position. This discrepancy between above two arguments is caused by the difference in their analytical perspectives and scope. Schenk has focused on international monetary relations, emphasising how sterling was supported, whereas Oliver has looked into the domestic aspect of currency management, drawing attention to the failure to defend the parity. In order to overcome the constraints arising from a singular perspective, this thesis will place focus upon the economic policies that were undertaken by UK governments, highlighting the links between the fiscal and monetary aspects in the context of currency management. This, it will be argued, provides a clearer image of what the UK governments in the late Bretton Woods era prioritised and intended to defend or achieve, what obstacles arose, and what got lost along the way.

Further consideration should be given to the links between domestic economic policies and international currency arrangements. Schenk's examination of IMF primary sources revealed a key aspect of currency management of the period. She delineated the negotiating power and position of the UK in relation to the US as one of 'interdependence' rather than the 'supplicant' argued in existing research, in Schenk's criticism of Boyle.[22] This inevitably leads to two fundamental questions. The first is how such 'interdependence' was secured, and what the governments aimed to mobilise this power to achieve, then what policy outcomes, including both domestic economic policies and international monetary co-operative schemes, emerged through the political process of co-ordinating domestic and international interests. The second question is located in the difference of scope in the work

[22] Ibid., p.205. Kevin Boyle, 'The Price of Peace: Vietnam, the Pound, and the Crisis of the American Empire', *Diplomatic History*, Vol. 27, No.1, 2003, pp.37-72.

of Schenk and others, such as Boyle. The former has focused largely on international institutional arrangement and negotiation, such as via the IMF, whereas the latter has placed significance on negotiations led by governmental officials and state ministries, such as the Foreign Office and Treasury Department. This difference in scope might lead to the paradoxical view that the UK's economic policies or politics were restrained, or its sovereignty eroded because of, or perhaps in order to maintain, its 'interdependent' or strong sovereign position in international politics.

Therefore, it is imperative to disentangle the complicated decision-making process behind economic policy formation, and to reveal the links amongst currency management, and fiscal and monetary policies. As seen above, it is paramount to reinvestigate fiscal and monetary policies in the context of currency management in the late Bretton Woods era, a statistically tranquil 'heyday' riddled with incessant crises. To do this, this thesis will mainly focus on the centre of the decision-making process in which all aspects are reflected: the government and the Bank of England.

1.2 International political economy: theoretical perspectives

This thesis aims to provide clarification of how the aspects of international currency management, and domestic fiscal and monetary policies interacted in the late Bretton Woods era. In this section, consideration is given to the development of influential theoretical arguments of international political economy and international relations, for later comparison of the history with these theories. As Günter Schmölders has argued, the essence of public finance and political economy is embodied within the interrelations between the management of currencies (currency issue) and taxation (public finance).[23] Even If this holds credence, it should not be neglected that from the late Bretton Woods system, currency was managed increasingly in the international sphere having both a direct and indirect impact on domestic economic policies including public finance, and *vice versa*. This section considers what can be gleaned from analysis of the interrelations of the three components of currency management, and fiscal and monetary policies, in the context of theories of international political economy.

1.2.1 Coercion or concord? Realism and 'embedded liberalism'

As a starting point, this section explores theories that focus on harmonisation between the international liberalised market and domestic economic policies, beginning with the 'embedded liberalism' by Ruggie. As a premise, Ruggie embraced the argument of Karl Polanyi that liberal states and the equilibrium of national powers based on a self-regulating market during the gold standard era, dubbed 'utopia', created a force for the achievement of internationally stable periods, such as *'Pax Britannica*'. Then, Ruggie delineated the post-World War II economy as a compound of international multilateralism, or inclination towards free markets, and domestic economic policies incorporating 'social objectives' with economic stabilisation schemes through 'Keynesian' policies. According to Ruggie, this led the international economic regime not to 'utopia'

[23] Günter Schmölders, *Finanzpolitik* (Berlin: Springer-Verlag, 1955), translated by Tadao Yamaguchi *et al.* into Japanese, Zaisei seisaku dai ippan (Tokyo: Toyo Keizai Inc., 1957).

but to 'embedded liberalism', which gained political legitimacy.[24] Many hold that this framework is still influential and applicable to historical research.[25]

In contrast to this theory of concord between the international and domestic economic aspects, neo-Marxists emphasised the crisis of 'embedded liberalism'. This group saw political legitimacy, based on Herbermas' concept, as underpinned by social policies for the capitalist class, which caused the gradual expansion of dependency on public deficits. In their theoretical argument, this accumulated deficit precipitated 'fiscal crises', which led to erosion of the legitimacy sustaining embedded liberalism and the emergence of 'disorganized capitalism'.[26]

In contrast to the arguments of neo-Marxists, which stressed the endogenous demise of the internal components of 'embedded liberalism', 'hegemonic stability theory' and realism put forth a differing perspective on

---

[24] John Gerard Ruggie, *Constructing the World Polity: Essays on International Institutionalization* (London: Routledge, 1998), pp.62-76. For the explanation of post-world war II 'social objectives' in UK policies, see Richard M. Titmuss, 'The Role of Redistribution in Social Policy', *Social Security Bulletin*, Vol.28, No.6, 1965, p.16. For Titmuss, the two major objectives of social policies were based on redistributive and non-discriminatory aims, referring to national insurance, education, medical care, housing and so on.

[25] Scott Newton's argument concerning the decision behind the sterling devaluation of 1967 can be considered as applying the theory of 'embedded liberalism'. Scott Newton, 'The Sterling Devaluation of 1967, the International Economy and Post-War Social Democracy', *English Historical Review*, Vol. CXXV, No.515, 2010, pp.912-45.

[26] For contradictions between the expansion of social policies and political legitimacy, see Claus Offe, *Contradictions of the Welfare State* (Massachusetts: The MIT Press, 1984); and Claus Offe, *Disorganized Capitalism: Contemporary Transformations of Work and Politics* (Cambridge: Polity Press, 1985). James O'Connor also argued that increasing public expenditure was mobilised in order to prop-up capitalism with various social policies, leading to fiscal crises. James O'Connor, *The Fiscal Crisis of the State* (New York: St Martin's Press, 1973). These views gathered academic attention in the highly inflationary era of the 1970s for analysing 'fiscal crises'. Wolfgang Streeck extended this view to current fiscal states, arguing that mounting public and private debts with a neoliberal agenda pushed states towards fiscal consolidation, the so-called 'consolidation state'. Wolfgang Streeck, *Buying Time: The Delayed Crisis of Democratic Capitalism* (London: Verso, 2014).

internal and external conflicts. An approach of realism arising from emphasis on national sovereignty of the Westphalian system since 1648 has assumed that nation states rationally pursue maximisation of their public interests. This causes the occurrence of perennial conflict or anarchical relations amongst states.[27] This theoretical assumption, underpinned by the work of Dahl, emphasised that states hold a relative degree of power and exert influence upon others to change their decisions or behaviour.[28] Therefore, as seen in the explanation of Stephen Krasner, realism has focused on how nation states reach international concord, achieve sound international relations or orders, and how this situation is maintained within anarchical international relations.[29]

In a similar framework to realism, Kindleberger has asserted that the stable international order was created by hegemonic power. He placed significance on both World Wars breaking out during an 'interregnum', or transitional period, of national power in which UK hegemony transferred to the US. Then Kindleberger stressed that the hegemon, backed by aggrandised economic supremacy with military power, had upheld the stable international order.[30] To be more precise,

---

[27] In the classical account, reductionism and methodological individualism by Morgenthau identified human nature as a power maximiser and extended this account to the field of international politics, see Hans J. Morgenthau, *Politics Among Nations: The Struggle for Power and Peace* (New York: Alfred A. Knopf, 1948). A similar view that recognised the state as an 'irreducible unit' akin to an individual person was seen in the work of Nettl. See J. P. Nettl, 'The State as a Conceptual Variable', *World Politics*, Vol.20, No.4, 1968, pp.559-92.

[28] Robert A. Dahl, 'The concept of power', *Behavioral Science*, Vol.2, No.3, 1957, pp.201-15.

[29] Stephen D. Krasner, *Power, the State, and Sovereignty: Essays on international relations* (Abingdon: Routledge, 2009), p.5. Hedley Bull defined the order as 'a pattern of human activity that sustains elementary, primary or universal goals of social life.' Hedley Bull, *The Anarchical Society: A Study of Order in World Politics, Fourth Edition* (Basingstoke: Palgrave Macmillan, 2012), originally published 1977, p.4. Bull amplified this definition to international politics and claimed that international order consists of preservation of the system, independence and external sovereignty, and pursuit of peace to alleviate or avoid international anarchic milieu.

[30] Hegemon refers to a nation or government with hegemonic power, which

Kindleberger made the assertion that the key currency and internationally open market as 'collective goods', provided by the hegemonic nation, fostered sound international relations.[31] According to this theory, however, the hegemonic state risks collision between internal and external interests, because of the prerequisite to supply 'collective goods' to meet foreign demand and maintain an existing regime, which easily clashes with internal economic interests. This is the prototype of 'hegemonic stability theory'.

Since Kindleberger's work, numerous commentators have, within the frameworks of realism or structural realism, placed focus on military and economic aspects. The influential theorist, Robert Gilpin, assessed that US hegemony, based on nuclear weapons and anchored by the key currency under the dollar-gold standard, created hierarchical relations amongst nation states, which led to a stable international system in the post-World War II era.[32]

However, an incongruous phase for realism and hegemonic stability theory occurred surrounding the Nixon shock in 1971, which exposed the waning, or at least fundamental change, of US economic supremacy.[33] The question arose: how were stable international relations maintained with the decline (whether in

---

consists of economic or military supremacy. The concept of hegemony was developed from the work of Antonio Gramsci in the context of Italian Marxian politics. According to Gramsci, hegemony is a product of 'intellectual and moral leadership' and the 'direction' of society is set by the dominant group. Theories of international political economy amplify this concept to the analysis of global political and economic balance. Some theories consider this concept of hegemony a source of international order.

[31] Charles P. Kindleberger, *The World in Depression, 1929-1939* (Berkeley: University of California Press, 1973), chapter 14.

[32] Gilpin, *The Political Economy of International Relations*.

[33] On 15 August 1971, the US Treasury closed the gold window and terminated the convertibility of dollars into gold. Joanne Gowa analysed the Nixon shock from the perspective of the conflicts between the co-ordination of domestic economic interests and internationally liberal market policies. Joanne Gowa, *Closing the Gold Window: Domestic Politics and the End of Bretton Woods* (London: Cornell University Press, 1983).

absolute or relative terms) of US economic supremacy?[34] In conjunction, understanding of coercive US hegemony has been revised from multiple perspectives. For example, Lundestad has argued that the US did not forcefully exercise its own power but was an ‘invited empire’, because continental European countries and the UK required military and foreign aid, such as the Marshall Plan or Anglo-American financial co-operation, not only for economic reconstruction but also to contain social and political movement toward extremism immediate after the second World War.[35] Moreover, it can be seen from Keohane’s work that not only conflict or collision of the interests of nation states but also international co-operation or harmonisation became apparent as a consequence of the creation of various international economic co-operative schemes.[36]

---

[34] Of course the collapse of Bretton Woods system cannot solely be considered as the decline in US economic supremacy. Rather, one argument, dubbed ‘Bretton Woods II’, in the context of ‘global imbalance’, stressed the significance of US external deficits in a global economy. This argument has put forward that emerging economies in East Asia and Latin America have pegged to the dollar at undervalued rates, and the US has been playing a role in providing these countries’ reserves with dollar-denominated assets. Here, this system has underpinned export-led growth in emerging economies, and the US dollar or its deficit play a pivotal role in the global market as seen in the Bretton Woods era. Therefore, US deficit and the decline in the dollar value cannot simply be judged as a sign of decline in US economic supremacy. See Michael P. Dooley, David Folkerts-Landau and Peter M. Garber, ‘The Revived Bretton Woods System: The Effects of Periphery Intervention and Reserve Management on Interest Rates and Exchange Rates in Center Countries’, *NBER Working Paper*, No. 10332, March 2004. Also see Michael P. Dooley, David Folkerts-Landau and Peter M. Garber, ‘Bretton Woods II Still Defines The International Monetary System’, *NBER Working Paper*, No. 14731, February 2009.

[35] Geir Lundestad, *The United States and Western Europe since 1945: From “Empire” by Invitation to Transatlantic Drift* (Oxford: Oxford University Press, 2003), p.55.

[36] Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984), pp.46, 51-64.

1.2.2 Structural realism, the liberal international order, and the institutional approach

As historical research has revealed co-operative aspects and the relative decline of the US economy, the schema within the international political economy of so-called neorealism or structural realism has endeavoured to refine its understanding. This school maintains the concept of nation states in pursuit of their own interests within 'anarchic international society', while nation states passively, systematically and rationally incorporate into international security systems to protect themselves against physical external threats.[37] This can be understood as a product of the 'Nash equilibrium', making the best choice possible, taking into account the decisions of other players.

From an institutional economics perspective, transaction costs arising from non-participation in international co-operative schemes are greater than the benefits from membership of such schemes. Hence, states incorporate themselves into international co-operative schemes.[38] This methodology can also be applied to incremental change and path-dependence of international relations. Douglass North defined institutions as 'humanly devised constraints

---

[37] Kenneth Waltz presented the systematic theory or so-called balance of power theory. He focused on the international political system as the most significant aspect in deciding the correlation and mechanisms amongst nation states. This is defined by the principle which creates international orders, the specification of functions and distribution of capabilities. Kenneth Waltz, *Theory of International Politics* (Massachusetts: Addison-Wesley, 1979), chapter 5. See also Robert O. Keohane, 'Theory of World Politics: Structural Realism and Beyond', in Robert O. Keohane (ed.), *Neorealism and its Critics* (New York: Columbia University Press, 1986), pp.163-70.

[38] Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), p.3.
For the concept of transaction costs, see O. E. Williamson, *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting* (London: Macmillan, 1985).

that shape human interaction', which metamorphose according to relative changes in transaction costs. The institutions stabilise while agency costs are below increasing returns from the membership of institutions, then this self-enforcing mechanism creates path-dependence. On the other hand, when transaction costs exceed the increasing returns, institutions undergo change. In other words, if transaction costs exceed the benefits produced through the membership of institutions, nation states in pursuit of maximising national interests would change their policies or institutional frameworks.

In the context of structural realism, Stephen Krasner provided theoretical frameworks focusing on sovereignties, which can be used for analysis of correlations between the international system and domestic field. Although his description can be considered ambiguous, Krasner classified the sovereignty structures of nation states into Westphalian sovereignty; domestic sovereignty; interdependence sovereignty and international legal sovereignty, then discerning that these types might covary or undermine each other.[39] The most important classifications for this thesis are domestic sovereignty and interdependence sovereignty.[40] The former refers to the 'organization of political authority within the state and the ability of public authorities to exercise effective control within the borders of their own polity' and the latter is defined as 'the ability of public authorities to regulate the flow of information, ideas, goods,

---

[39] Krasner, *Power, the State, and Sovereignty*, pp.179-80. Krasner's explanation of four types of sovereignty presents as unclear. While he suggested that these four types 'do not necessarily covary' and a 'state can have one but not the other', he recognised the possibility that one type of sovereignty may undermine others and a state has a set of sovereignties. Therefore, this should be interpreted to imply that the four types of sovereignty can covary and affect one another.

[40] Ibid., p.184. The other types of sovereignty are outlined as follows. Westphalian sovereignty is 'exclusion of external actors from authority structures within a given territory', and international legal sovereignty refers to 'the practices associated with mutual recognition, usually between territory entities that have formal juridical independence'.

people, pollutants, or capital across the borders of their state.'[41] Which is to say, combining the implication of Katzenstein's work that foreign economic policies are distanced from domestic politics and society, these two types of sovereignty, backed by political legitimacy and the ability to control the global movement of capital and labour, are separate yet covary and affect one another.[42]

However, how these two sovereignties 'covaried' and interacted should be further examined due to the lack of detailed analysis from a historical perspective, notwithstanding the conceptual issues in Krasner's description of sovereignty structures as both static and 'covarying', in a trade-off fashion. In other words, from a historical perspective on the interrelations between international and domestic politics and economic management, the question arises: how did governments in the late Bretton Woods era mobilise domestic sovereignty in order to achieve political goals within interdependence sovereignty, and *vice versa*? Did the governments intentionally change the structure of such 'covarying' sovereignties in order to achieve their political objectives and desired balance of sovereignties?

Distinguished from structural realism, with the expansion of the free market and stable international relations in the post-World War II era, the analytical schema of structural liberalism or the liberal international order regained the spotlight. Ikenberry, the most significant advocate of the liberal international order, has side-lined coercive equilibrium, one of the key analytical points of structural realism and realism, and focused on five elements which construct

[41] Ibid.
[42] Peter J. Katzenstein, 'Introduction: Domestic and International Forces and Strategies of Foreign Economic Policy', in Peter J. Katzenstein (ed.), *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States* (Madison: The University of Wisconsin Press, 1978), pp.17-9.

the liberal international order.[43] The first element that Ikenberry outlined was 'security co-binding' which creates a sound international order. Secondly, the liberal international order 'penetrates reciprocal hegemony'. This is characterised as US federalism, which provides an open access system to guarantee participation and involvement in the decision-making process, thus aggrandising legitimation of the system in a co-operative, integrative and proactive way. Thirdly, in stark contrast to the Westphalian system, Ikenberry stated the significance of the presence of 'semi-sovereign and partial great powers', which complement the system, such as Japan and Germany. The fourth element Ikenberry presented is 'economic openness', or an open market, conducive to comparative economic advantages. The final element of the liberal international order is defined as 'civic identity', which alleviates international conflict and strengthens integration within the order.

In Ikenberry's theory, these systematic substructures bestow mutual benefits unto members, then establishing an open and non-discriminative rule-based foundation, which warrants national autonomy and attracts nation states to integrate into or remain part of the liberal international order.[44] Here, understanding of open access systems can be enriched with a theory of new institutional economics. Douglass North and others emphasised that 'open access orders' could prevent disorder, and presented one of the greatest causes of economic growth, hence the disparities of growth among nations. According to North, these 'open access orders' feature impartiality; no constraints on entry into economic, political, and cultural activities;

---

[43] G. John Ikenberry, *Liberal Order and Imperial Ambition: Essays on American Power and World Politics* (Cambridge: Polity Press, 2006), pp.90-105.
[44] G. John Ikenberry, *Liberal Leviathan: The Origins, Crisis, and Transformation of the American World Order* (Princeton: Princeton University Press, 2011), p.18.

organisational guarantee; and non-discriminatory law enforced upon all citizens, ensuring impersonal exchange.[45] Combining the concepts of Ikenberry and North leads to understanding of open access polity and economic openness as rule-based and non-discriminatory liberal economies with states' governance for and of orderly society.[46]

Of great theoretical importance *en route* to explanation of the foundations of the liberal international order and for identification of the heterogeneous facets of structural realism, is how to construe and re-examine the auspicious appraisal of the international liberal market that has been considered to permeate the post-World War II era.[47]

There is little doubt that, for re-examining the liberal international order, Dani Rodrik has presented a useful account, which delineated internal and external conflict arising from a globally liberalised political economy. His argument is well known as the 'political trilemma', relating to the incompatibility of three elements: national sovereignty, democracy and hyper-globalisation.[48] In other words, Rodrik's argument has challenged the credence of the liberal international order and suggested inconsistencies between the theory and an

---

[45] Douglass C. North, John Joseph Wallis and Barry R. Weingast, *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History* (Cambridge: Cambridge University Press, 2009), pp.112-5.

[46] 'Neoliberal' governments, at least partially, share a similar concept. For an account on the 'strong state' and the rule-based free economy, see Andrew Gamble, *The Free Economy and the Strong State: The Politics of Thatcherism* (Basingstoke: Macmillan, 1988).

[47] Amitav Acharya, *The End of American World Order (Cambridge: Polity Press, 2014),* and G. John Ikenberry, 'The end of liberal international order?' *International Affairs*, Vol.94, No.1, 2018, pp.7-23, expressed an optimistic view on the liberal international order. Post-Great Financial Crisis, this liberal international order faces a period of coercive protectionism. However, Ikenberry emphasised the continuity of international liberalism as emanating from the nineteenth century, while Acharya assumed that minor changes would occur.

[48] Dani Rodrik, *The Globalization Paradox: Democracy and the Future of the World Economy* (New York: W.W. Norton & Company Inc., 2011), chapter 9.

unfolding situation in which a rampant global financial market has disintegrated domestic politics composed of democratic processes and eroded national sovereignty. In this sense, analysis with the 'political trilemma' refocused upon and reassessed conflict between international markets and nation states.

The scope of the 'political trilemma' is also extended to the Bretton Woods era. Rodrik assessed that the confined and constrictive 'globalisation' of the Bretton Woods era could achieve compatibility with national sovereignty and democracy, and that they were consonant with each other: the so-called 'Bretton Woods Compromises'.[49] However, careful consideration should be given to these 'compromises', particularly the extent to which these three components affected each other. As it will be outlined in this thesis, analysis of sequential historical events under the late Bretton Woods era delineates and highlights that currency management in the international political arena, which is perceived by some commentators as a turning point towards financial 'globalisation', affected the adjustment and reform of domestic monetary and fiscal policies, and *vice versa*.[50] There is little doubt that in this political process, some form of coercive change in political direction with a rise in global governance of currency management occurred, periodically deepening internal conflicts. Furthermore, it will be shown that nation states used and contributed

---

[49] Rodrik, *The Globalization Paradox.* Rodrik has also argued that economic integration erodes sovereignty over redistributive taxation and social expenditures, leading to a dilemma, or conflict in a society that demands an expanding governmental role so as not to be exposed to greater external risks, and governments which seek economic integration. See Dani Rodrik, *Has Globalization Gone Too Far?* (Washington DC: Institute for International Economics, 1997).

[50] For a notion on financial 'globalisation', see Philip G. Cerny, 'Capturing Benefits, Avoiding Losses: the United States, Japan and the Politics of Constraint', in Susanne Soederberg, Georg Menz, and Philip G. Cerny (eds.), *Internalizing Globalization: The Rise of Neoliberalism and the Decline of National Varieties of Capitalism* (Basingstoke: Palgrave Macmillan, 2005), p. 131.

to these international monetary schemes in order to circumvent domestic political and economic issues, which is to say that nation states brought their own political and economic agendas to the international arena for arrangement of diverse domestic interests.

Therefore, it is challenging to categorise this factor within Rodrik's trilemma, and further detailed analysis of the interconnection between domestic and international economic policies is necessary. There is no question of the necessity to focus not only on systematic factors but also on the political process, including the development of the ideas of officials in order to portray the dynamic historical process.

From the above survey, developments of theories from realism to the liberal international order can be considered to present *ad hoc* modification of the concepts of 'hegemony' or sovereignties, and their elements according to the unfolding historical events, integrated with advanced economic and institutional theories.[51] However, although the framework of structural realism presumes that the international economy and domestic sovereignty 'covary', its depiction of the dynamic process of the interaction between these two factors has remained static due to the lack of detailed historical research. This has failed to describe

---

[51] One of the prominent arguments on 'hegemony' was raised by Gramsci. Antonio Gramsci, *Selections from the Prison Notebooks of Antonio Gramsci* (London: Lawrence & Wishart, 1971). According to Gramsci, the 'intellectuals' as representatives of dominant groups exercise coercive power through political society or the state, and achieve the consent of the masses or the subaltern class in order to govern and command society and political government. This consent is a product of 'hegemony', which takes the form of 'intellectual and moral leadership'. The 'direction' of society is set by the dominant group. The theories of international political economy can be considered to partially reify and embed this abstract concept of 'hegemony' into theoretical frameworks such as the coercive systematic theory and structural centripetal force. For a brief explanation and account of the political ideology of Gramsci, see Eric Hobsbawm, *How to Change the World: Tales of Marx and Marxism* (London: Abacus, 2012), chapter 12.

the mutual relations amongst covarying sovereignties, and aspects of strategic governmental interventions which hypothetically affect the structure of sovereignties. Also, given that the liberal international order disregards conflict between the international market and nation states, it can be considered to overly and unduly place significance on the benefits gained from a liberalised economy as the source of a stable global order.

Therefore, it is necessary to utilise historical analysis to revisit the 'covariation', conflict and harmonisation of domestic economic policies and international aspects. This is also key for overcoming the dichotomy between subservient and spontaneous integration into the international system.

1.2.3 Economic perspectives

In order to analyse the currency management of the Bretton Woods era, it is imperative to refer to the economic perspective. Robert Mundell's work linked domestic monetary policies, fiscal policies and foreign exchange.[52] This theory presented the 'impossible trinity' of international finance, which refers to the incompatibility of a fixed foreign exchange rate system, free capital movement and the independence and discrepancy of monetary policies. This theoretical framework, founded on the Mundell-Fleming model, has significant analytical power when considering effectiveness of fiscal and monetary policies under floating or fixed exchange rate systems.[53]

[52] Robert A. Mundell, *International Economics* (London: Macmillan, 1968), pp.250-62.
[53] For example, see Michael D. Bordo, Owen F. Humpage and Anna J. Schwartz, *Strained Relations: US Foreign-Exchange Operations and Monetary*

Michael Bordo applied this trilemma of international finance, asserting that currency market intervention in the Bretton Woods era was inextricably intertwined with the objectives of the management of currencies without overt regulation on international capital movement. Bordo's analysis then explicated that the interventions taken during this era amounted to an attempt to meticulously bypass the trilemma of the 'impossible trinity' and did not encumber the anti-inflationary policies of central banks. However, Barry Eichengreen proposed that it is necessary to examine the management of currencies in the post-World War II era as an intricately co-ordinated web of schemes, involving a multitude of international and domestic institutions.[54] It should be noted that Bordo's analysis did not explore the management of currencies during the Bretton Woods era in the same way as Eichengreen suggested, who assessed it as a highly political matter. Therefore, this thesis will endeavour to reassess the political process of currency management, including domestic economic policies, focussing mainly on the UK, and will then investigate the 'covariable' co-operation or conflict between nation states and the international political arena.

1.2.4 Perspectives in this thesis

In sum, it can be argued that the theories of international political economy and arguments drawn from economic theories are mired in dichotomy, in which

---

Policy in the Twentieth Century (Chicago: The University of Chicago Press, 2015), pp.3, 34-6. Also see Catherine R. Schenk, *International Economic Relations Since 1945* (Abingdon: Routledge, 2011).

[54] Alec Cairncross and Barry Eichengreen, *Sterling in Decline: The Devaluations of 1931, 1949 and 1967* (Oxford: Basil Blackwell, 1983).

states are subordinate or at Nash-equilibrium, have independence or loss of sovereignty, and exhibit conflict or harmonisation. On the other hand, arguments emphasising ‘bypass’ or ‘covary’ neglect the history of the decision-making process, failing to provide constructive assessment. In this thesis investigation is made of the interactions surrounding currency management by governmental and non-governmental actors, and cabinet level politicians.

In conjunction, exploration will be made of an *additional*, *supplementary* perspective: how the international management of currency worked both as a buffer and driving force to ameliorate or exacerbate conflict with and within domestic economic management. It will be also examined how, *vice versa*, domestic economic management was also mobilised in the international political arena surrounding currency management to mitigate domestic political and economic conflict over fiscal and monetary policies. In other words, this thesis emphasises the paradoxes of sovereignty, where currency management at least partially intended to enhance state sovereignty or capacity in the terrain of fiscal policies and the international political arena. This might have obscured internal political conflicts through which distribution in internal political power was restructured, inadvertently resulting in the erosion of the effectiveness of fiscal policies, or at least narrowing the path of domestic economic policies. When these interrelated facets encountered turmoil, such as the failure of currency management, the previously obscured political conflicts became apparent in the political agenda, which might have accelerated reform in domestic economic policies including social security.

Here, in order to clarify its originality, it is necessary to delineate the difference of this argument from that of sovereignty through transnational networks, two-level game theory, and ‘internalizing globalization’. Keck and

Sikkink's concept of 'transnational advocacy networks' featuring 'voluntary, reciprocal, and horizontal patterns of communication and exchange', notably by non-governmental organisations, 'transform the practice of national sovereignty'.[55] In contrast to their argument, this thesis emphasises national sovereignty centralised into governments and monetary authorities that are transnationally and mutually influenced. In this reciprocal process, within the sphere where states hold asymmetrical economic influence, institutions are dynamically changed.

On the other hand, Putnam's two-level game theory assumes that policy makers can see their own and their counterparts' marginal utility curves. Then, within the negotiation process, one aims to maximise domestic economic benefit, and the other aims to maximise national ability in the international field to satisfy domestic interests. In this process, domestic and international policies are statically determined at the equilibrium point.[56] In contrast to Putnam's theory, this thesis emphasises the bearing of uncertainty on the political process, in which the superimposed policy makers cannot predict future outcomes and distribution of others' utilities. Here emphasis is placed upon policy makers attempting to achieve, reconcile, and even change domestic interests, or their own interests, via the international monetary field. This dynamic process did not only satisfy or converge the diverged domestic interests, but also hid the conflicts or frontiers of these interests.

The essence of this dynamic international political economic process is also significantly distanced from the concept of 'Empire' of Negri and Hardt, which

[55] Margaret E. Keck and Kathryn Sikkink, *Activists beyond Borders: Advocacy Networks in International Politics* (London: Cornell University Press, 1998), chapter 1.
[56] Robert D. Putnam, 'Diplomacy and domestic politics: the logic of two-level games', *International Organization*, Vol.42, No.3, 1988, pp.427-60.

emphasised the notional network of global sovereignty underpinned by modern capitalism.[57] In contrast, analysis of the history of fiscal and monetary policies in the context of currency management will indicate that the actors were not incorporated, but used such supranational networks within the political process of their nation state. Moreover, the arguments of this thesis are distanced from the concept of an interstate system composed of a set of rules through which any states' sovereignty is constrained and secured.[58] Rather, focus should be placed upon the ceaseless spiraling political process of mutual adjustments within domestic and international aspects.

Finally, in contrast to the sweeping and over-general argument of 'internalizing globalization', in which domestic politics change within complicated economic, social and political interactions across borders, this thesis pays consideration to how international currency management contributed to determination of aspects of fiscal and monetary policies.[59]

[57] Hardt and Negri defined this 'Empire' as an open rather than closed, rule-based supranational network and 'a new inscription of authority and a new design of the production of norms and legal instruments of coercion that guarantee contracts and resolve conflicts,' Michael Hardt and Antonio Negri, *Empire* (Harvard: Harvard University Press, 2000), p.10. Also see Michael Hardt and Antonio Negri, *Multitude: War and Democracy in the Age of Empire* (London: Penguin Books, 2005).

[58] For explanation of the interstate system, see Immanuel Wallerstein, *Historical Capitalism with Capitalist Civilization* (London: Verso, 1995), pp.56-7.

[59] See Philip G. Cerny, Georg Menz, and Susanne Soederberg, 'Different Roads to Globalization: Neoliberalism, the Competition State, and Politics in a More Open World', in Soederberg, Menz, and Cerny (eds.), *Internalizing Globalization*, pp.1-30. 'Internalizing globalization' views globalisation not as an external force but as forged within the domestic political climate. This emphasises international and domestic politics as 'an interpenetrated set of webs of politics and governance'.

1.3 Questions arising from state theory

The above section has delineated the need to reinvestigate how domestic economic policies and international currency management were mutually shaped and reshaped, from the perspective of international political economy. Analysis of this would present as lacking without clarification of the link with state theory.

This section attempts not to describe the whole picture of the development of state theory, but to clarify the meaning of focus on the political process behind monetary and fiscal policies in its context, and to attempt to find a step to converge state theory and theories of international political economy, then extracting a research focus.[60] In relation to the late Bretton Woods era, state theory has three methodologies significant for this thesis. The first focuses on the 'elements' of policies conducted by states, such as taxation and money. The second emphasises the decision-making process and 'power' distribution. The third highlights the impact of institutions. This thesis suggests that these three aspects were significantly affected by external forces, especially during the rise of international monetary co-operative schemes observed in the 1960s.

1.3.1 States from perspectives of economics

For analysis of the history of political economy, an economic perspective is a useful starting point for surveying state theory. There is no doubt that the provision of public goods, in the field of public finance, is the most significant

[60] This chapter does not consider 'welfare states'.

aspect for considering the state from an economic perspective. Here, Masaru Kaneko's critique has presented crucial points for considering states and the provision of public goods. He asserted that economics, particularly mainstream public economics and neoclassical economics, does not hold endogenous logic to explain the *raison d'être* of states since it cannot describe states' active roles from the theoretical basis of a Walrasian concept of markets.[61] According to Kaneko's critique, if mainstream economics has little explanatory power for the role of states, the theoretical and logical gap must be bridged, because states do exist. This has led to economists arbitrarily attributing features to modern public goods of 'non-rivalry and non-excludability', *ex post facto* or at least *a posteriori* recognition of the expanding governmental role. Then, the concept of public goods was formed and became *a priori* assumption, which eventually determines or constrains the level of provision of public goods.[62]

---

[61] Masaru Kaneko, *Shijyou to Seido no Seiji Keizaigaku* (Tokyo: University of Tokyo Press, 1997), chapter 1.
It can be argued that the governmental role in the economy was replaced by strict economic discipline and methodology, which resulted in the oversimplification of public goods. Albert O. Hirschman pointed out that moral aspects of politics were gradually replaced with the virtue of economic transactions, which can be interpreted as limiting the role of governments. See Albert O. Hirschman, *The Passions and the Interests: Political Arguments for Capitalism Before its Triumph* (Princeton: Princeton University Press, 1977). William Davies, from the perspective of 'convention theory', argued that 'neoliberal economics' poured measurable physics into economics, attempting to 'disenchant' politics. See William Davies, *The Limits of Neoliberalism: Authority, Sovereignty and the Logic of Competition, Revised Edition* (London: SAGE Publications Ltd, 2016). For general argument on the development of the rebirth or rise in a neoliberal agenda and decline in collectivism, see Rachel S. Turner, *Neo-Liberal Ideology: History, Concepts and Policies* (Edinburgh: Edinburgh University Press Ltd, 2008).

[62] Here, so as to simplify the discussion, value goods and 'quasi-public goods' are not considered. However, regarding issues of quasi-public goods, such as the tragedy of the commons, it is necessary to refer the work of Ostrom. The tragedy of the commons is the excessive consumption and depletion of resources in a market without private ownership. It had been considered that to resolve the tragedy of the commons, there were two means: direct control by the government of consumption of the commons, or the setting of private rights in this field. Ostrom argued that this issue could be resolved through the co-

Moreover, it should also be noted that neoclassical and mainstream public economics hold unrealistic dogmatic assumptions of rational human behaviour.[63] Although recent behavioural economics has attempted to take into account irrational individuals, it cannot to be assessed as overcoming the constraints of this theoretical premise. For example, Thaler and Sunstein's concern was with the alteration of people's behaviour 'in a predictable way' via encouraging not the people's 'reflective' thinking but their 'intuitive and automatic', even rational thinking.[64] Therefore, these arguments can be considered a sophisticated theory of incentive effects to induce behaviour or resolve disequilibrium, which are recognised as social issues.[65] These unrealistic assumptions have faced repeated criticism, however, they remain strongly maintained.[66] More importantly, this theoretical premise provided the

---

management of the common pool of resources at community level. Elinor Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action* (Cambridge: Cambridge University Press, 1990). Later, her theoretical argument was combined with co-operative game theory, in which co-management within the community alongside punishment of persons who do not abide to the self-set rules would be the most efficient means to manage the commons.

[63] The assumptions of rational individuals and homo-economicus, and profit-benefit-maximisers, can be considered as developed with a scientific aspect, such as genetic science. See Richard Dawkins, *The Selfish Gene* (Oxford: Oxford University Press, 1976). Also see Itai Yanai and Martin Lercher, *The Society of Genes* (London: Harvard University Press, 2016). The latter work accepted the complex co-operative and conflictive interactions among genes, however, it maintained the view on genes as reducible units and 'selfish' actors.

[64] Richard H. Thaler and Cass R. Sunstein, *Nudge: Improving Decisions About Health, Wealth and Happiness* (London: Penguin Books, 2009), pp. 6, 21. Here, limited rationality as seen in Hayek's philosophy is not considered. For a brief argument in the context of uncertainty, see chapter 3 of this thesis.

[65] Attempts have been made to extend the framework of game theory toward 'altruistic' behaviour. For a recent work, see Samuel Bowles and Herbert Gintis, *A Cooperative Species: Human Reciprocity and its Evolution* (Princeton: Princeton University Press, 2011).

[66] Below are notable works that have revealed aspects conflictive against rational individuals. For decisions and behaviour over consumption, see Thorstein Veblen, *The Theory of the Leisure Class* (Oxford: Oxford University Press, 2007), originally published 1899; Jean Baudrillard, *The Consumer Society: Myth and Structures* (London: Sage Publications Ltd., 1998), originally

foundation for understanding of the ‘discipline’ of the provision of public goods as a means to correct market and government failure, such as the free rider problem or information asymmetry, and eventually limited the role of the government. Of great importance here is that mainstream economic theory lacks endogenous logic to explain the existence of states or their roles in reality, however, it strongly influenced and somewhat determined public policies. This inevitably leads to the necessity to reconsider the state from a historical and institutional point of view.

1.3.2 States with ‘infrastructural power’

In a very narrow and classical sociological definition, the state has been recognised as a ‘human community’ with ‘the monopoly of legitimate physical violence within a particular territory’.[67] This monopoly partially reflected in classical Marxian politics as a dominant capitalist class, and states are identified by class structures, modes of production and the class struggle. However, this view has faced repeated criticism, and pressure for revision according to the development of historical and theoretical studies.

---

published 1970. Also see David Riesman, *The Lonely Crowd: A Study of the Changing American Character* (New Haven: Yale University Press, 1950). For anthropological research on the structure of marriage among tribes to unintentionally avoid incestuous relations, see Claude Lévi-Strauss, *The Elementary Structures of Kinship* (Boston: Beacon Press, 1969). For overall critique on the theoretical assumptions of neoclassical economics, see Geoffrey M. Hodgson, *Economics and Institutions: A Manifesto for a Modern Institutional Economics* (Cambridge: Polity Press, 1988).

[67] Max Weber, *The Vocation Lectures* (Cambridge: Hackett Publishing Company, 2004), originally published 1919, p.33. On the other hand, Hall and Ikenberry identified three elements to states: a set of institutions with violence and coercion governed by personnel, a centre of bounded territory, and monopoly over rule-making within its boundaries. John A. Hall and G. John Ikenberry, *The State* (Milton Keynes: Open University Press, 1989), pp.1-2.

The below attempts to classify the elements of states with a very brief account of their long history. There are numerous accounts on the origins of states, however, Charles Tilly presented one of the most influential works. He defined states as 'coercion-wielding organizations' which includes 'city-states, empires, theocracies, and many other forms of government, but excludes tribes, lineages, firms, and churches as such', and defined national states as having 'centralized, and differentiated sovereign organizations'.[68] These coercion-wielding states were forged in preparation for and during war, and developed 'coercive means' to extract fundamental resources such as soldiers, supplies and money.[69] Historical research, in line with the argument of Sombart, has deepened analysis on the link between war and development of capitalism and economies, in which wars even fostered capitalism.[70] Emphasis here lies on the interplay between warfare and the expansion of organisational control of resources as fostering the formation of modern states, which can also be seen in the arguments of the 'fiscal military state'.[71]

---

[68] Charles Tilly, *Coercion, Capital, and European States, AD 990-1992* (Oxford: Blackwell, 1993), pp. 1-2. See also, Charles Tilly, 'Reflections on the History of European State-Making', in Charles Tilly (ed.), *The Formation of National States in Western Europe* (Princeton: Princeton University Press, 1975), pp. 3-83.

[69] Tilly, *Coercion,* pp.54-8. According to Tilly, coercive means were used in attacking external enemies (warmaking); attacking internal enemies (statemaking); attacking enemies on behalf of the state's clients (protection); extracting resources, such as through taxation, from the population of the territory (extraction); and settling internal disputes amongst the population (adjudication).

[70] Werner Sombart, *Krieg und Kapitalismus* (München: Duncker & Humblot, 1913), translated by Kanamori Seiya into Japanese, Sensou to Shihonsyugi (Tokyo: Ronsosha, 1996).

[71] Recent research focusing on the fiscal-military state revealed the interplay among taxation, finance and war. Various works have focused on this fiscal military state, including that which makes international comparison. John Brewer has presented arguably the most influential work. He clarified that the demand of financing preparation and command of war created centralised parliamentary political control, taxation and administrative reform and *vice versa*. Accumulated public deficits then set the foundation of a thriving financial market. See John Brewer, *The Sinews of Power: War, Money and the English State,*

Meanwhile, other analysis of the origin of states or nations has placed emphasis on the ideological aspect. Benedict Anderson asserted that nations are 'imagined political' communities based on 'linguistic-nationalisms' that sprang from 'print capitalism', the technological advancement of the printing industry.[72] In line with this, Eric Hobsbawm cited the argument of Ernest Gellner, suggesting that 'nationalism comes before nations. Nations do not make states and nationalisms but the other way round.'[73] Here, focus was placed on nation-ness as a source of the creation of states.

Michael Mann attempted to combine into the theory ideological aspects, coercive means, institutionalised administrative and tax structures, and the emergence of financial communities. He presented this as so-called 'social power', with the concepts of 'infrastructural' and 'despotic' power. Here, the important point is that 'infrastructural power', defined as 'the capacity of the state actually to penetrate civil society, and to implement logistically political

---

1688-1783 (London: Unwin Hyman, 1989). For tax and administrative reform for conducting warfare and its prerequisite condition, tax legitimacy, between the eighteenth and nineteenth centuries, see Martin Daunton, 'The politics of British taxation, from the Glorious Revolution to the Great War', in Bartolomé Yun-Casalilla, Patrick K. O'Brien and Franciso Comín Comín (eds.), *The Rise of Fiscal States: A Global History 1500-1914* (Cambridge: Cambridge University Press, 2012), pp.111-42.
Before the concept of fiscal military states gathered academic attention, there already existed research focusing on fiscal-military and international aspects. Masaru Kaneko exemplified with primary sources the viability and doom of the British 'laissez-faire state' or 'cheap government' in the nineteenth century as *de facto* financed through the fiscal resources extracted from colonised India. See Masaru Kaneko, 'Anka na Seihu to Syokuminchi Zaisei: Ei-In Kankei wo Chushin ni shite', *Fukushima University Syougaku Ronsyu*, Vol. 48, No.3, 1980, pp.97-163.

[72] Benedict Anderson, *Imagined Communities: Reflections on the Origin and Spread of Nationalism* (London: Verso, 1983). In Anderson's analysis, languages are '*emblems* of nation-ness, like flags, costumes, folk-dances', and are the origin of 'capacity for generating imagined communities, building in effect *particular solidarities*.' Ibid., p.133.

[73] Eric Hobsbawm, *Nations and Nationalism since 1780: Programme, Myth, Reality*, *Second Edition* (Cambridge: Cambridge University Press, 1992), originally published 1990, p.10. See also Ernest Gellner, *Nations and Nationalism* (Oxford: Basil Blackwell, 1983), pp.48-9.

decisions throughout the realm' and its increase will also 'increase the territorial boundedness and social interaction'.[74] This infrastructural power would be enhanced by literacy, communicative infrastructure, the currency system and taxation. It can be interpreted that Mann extended the framework of state theory to include 'infrastructural power', and revised its composition for analysis of contemporary state history.[75]

Here, for the purpose of this thesis, it is necessary to consider 'money' and taxation in the context of state theory. With respect to state development, currency can be categorised into two groups, 'Chartalist' and 'Metallist'.[76] Charles Goodhart identified that in the former, 'the use of currency was based essentially on the *power* of the issuing authority [...] with the insignia of sovereignty', and the value of the latter depended on the 'intrinsic value of the backing of that currency'. Goodhart argued that the 'Metallist' currency transformed into 'Chartalist 'money', while once money has been introduced, 'poll, income, and expenditure taxes, as well as taxes on the production of services become easier to levy.'[77] Later, Randall Wray extended this concept, providing a perspective on public deficits with the use of Knapp's argument that the value of banknotes is derived not from reserves or utility value of conversion but rather from 'a function of "acceptation" at the bank and public pay offices.'[78]

---

[74] Michael Mann, 'The Autonomous Power of the State: Its Origins, Mechanisms and Results', in John A. Hall (ed.), *States in History* (Oxford: Basil Blackwell, 1986), p. 113.
[75] Michael Mann, *The Sources of Social Power: Volume 4, Globalizations, 1945-2011* (Cambridge: Cambridge University Press, 2013).
[76] Charles A. E. Goodhart, 'The two concepts of money: implications for the analysis of optimal currency areas', *European Journal of Political Economy*, Vo.14, 1998, pp.407-32.
[77] Ibid., p.416. Goodhart also highlighted that governments receive two types of benefit from creating money: they can obtain seigniorage, and can easily impose taxes.
[78] L. Randall Wray, 'From the State Theory of Money to Modern Money Theory: An Alternative to Economic Orthodoxy', *Levy Economics Institute of Bard*

He concluded that 'the state determines the nominal value of money. This is done when the state establishes what it will accept at public pay offices, as well as the nominal value of the thing accepted.'[79] Setting aside the inherent logical and theoretical issues within Wray's modern money theory and its policy implications, from the survey of this argument, the inclusion of money and taxation into the 'infrastructural and despotic power' of Mann can be endorsed, because they have been sole governmental means to extract resources from markets or societies.[80]

In the above assessments, the state and its development have been analysed from the perspective of its function (taxation, money, literal education) and institutionalised apparatuses (administrative reform, official ideology, military). However, of great importance here is how these elements, particularly money and taxation, are controlled, managed or influenced, not solely by the government, but also through transnational interrelations. How did international monetary co-operation or co-ordination influence the 'infrastructural power' of the government, composed of the monetary and fiscal policies? The late Bretton Woods era, with the emergence of international monetary co-operative

---

College, Working Paper, No.792, March 2014, p.7. Regarding money and bond issue, Wray argued that 'spending logically comes first before government obtains tax revenue or sells bonds. If the government receives in tax payments its own IOUs, it must first supply them before taxes can be paid. And if bond purchasers must use the government's IOUs to pay for the bonds they buy, then government must have spent (or lent) its IOUs before it sold the bonds.' Ibid., p.29. This attempt to reconceptualise the link between money and public deficits, so-called modern money theory, provided fresh perspective on the discipline of budget constraint.
For the categorisation of money, see Georg Friedrich Knapp, *The State Theory of Money* (London: Macmillan, 1924).

[79] Wray, 'From the State Theory', p.18.

[80] Ibid., p.23. Wray cited Ingham's assertion that money is part of the infrastructural and despotic power of Mann's analysis. Geoffrey Ingham, 'The Nature of Money', *Economic Sociology*, European electronic newsletter, Vol.5, No.2, 2004, p.20.

schemes, provides important context for reconsideration of the function and apparatuses of modern states.

1.3.3 States, power and institutions

States should also be considered in the context of the distribution of power, the decision-making structure, and institutionalised organisations. This analytic trend arose from critique on classical Marxian politics. In the backdrop, with mass consumption society and economic growth, particularly seen with 'affluent workers' and the development of 'welfare states' after World War II, primitive class conflict was mitigated and inapplicable for identifying states.[81]

This heralded the rise of pluralistic state theory. Under pluralistic government, divided and conflictive interests emerge, however, these conflicts would be resolved through negotiation or competition amongst actors that seek to

---

[81] In the 1960s, workers were not integrated into 'middle class' society and did not hold its preference for 'status differentiation'. John H. Goldthorpe, David Lockwood, Frank Bechhofer and Jenifer Platt, *The affluent worker in the class structure* (Cambridge: Cambridge University Press, 1969), chapters 1 and 6. Rather, it is argued that 'the structure of social advantage and power' came not from change in the market economy, but from a change in the interplay of the market economy with other stratifying forces. This provoked change in the form of stratification as 'a determinant of the distribution of advantage'. This enabled 'less advanced groups' to pursue their interests which eventually heightened social conflict and paved the way to the inflationary era. John H. Goldthorpe, 'The Current Inflation: Towards a Sociological Account', in Fred Hirsch and John H. Goldthorpe (eds), *The political economy of inflation* (London: Martin Robertson, 1978), pp. 194-6. It is also necessary to mention the philosophy of Pierre Bourdieu in the context of France and continental Europe. Bourdieu emphasised that 'taste', referring to cultural and economic preferences, is identified from the education received and 'social origin'. This taste, which changes within the interplay among strategic individuals or 'groups' against counterparts, provided the 'distinction', identification, and 'marker' for individuals and 'class'. Pierre Bourdieu, *Distinction: A Social Critique of the Judgement of Taste* (London: Routledge & Kegan Paul, 1984).

maximise their interests through the channel of the parliamentary democratic process.[82] This theory can be interpreted as limiting the role or function of the government into the arena in which pressure groups allocate their interests, and make compromises in order to achieve their demands as output.[83]

In contrast to the pluralistic methodology, a global trend of increase in trade union membership and capability to negotiate for public policies became apparent from the early twentieth century. With this trend, the framework of corporatism, including social and state corporatism, was raised. This concept, in which the representatives of capital, labour and the state attempt to reach compromise for resolving the conflicts amongst them, was somewhat recognised as eventually protecting the capitalist mode of production. However, alongside the development of corporatism, tripartite interests gradually separated from the interests of individuals and each industrial sector. Moreover, in the context of the UK, the applicability of corporatist aspects has been repeatedly criticised.[84] Notable critique has been made by Tomlinson, that the UK's 'tripartism' was not for 'sharing of decisions by government, but was

[82] Arthur F. Bentley, *The Process of Government: A Study of Social Pressures* (Chicago: University of Chicago Press, 1908). David B. Truman, *The Governmental Process: Political Interests and Public Opinion* (New York: Alfred A. Knopf, 1951). This equilibrium approach was also employed in mainstream economics for analysis of government outlays. Buchanan and Tullok combined economic concepts, such as the choices of rational individuals and rational expectations, with political analysis and stressed that fiscal policies are the consequence and result of the accumulated choices of individuals. James M. Buchanan and Gordon Tullok, *The Collected Works of James M. Buchanan Volume 3, The Calculus of Consent: Logical Foundations of Constitutional Democracy* (Indianapolis: Liberty Fund, 1999), originally published 1962. James M.Buchanan, *Public Finance in Democratic Process: Fiscal Institutions and Individual Choice* (Chapel Hill: University of North Carolina Press, 1967).

[83] David Easton, *The Political System: An Inquiry into the State of Political Science* (New York: Alfred A. Knopf, 1953); David Easton, 'An Approach to the Analysis of Political Systems', *World Politics*, Vol.9, No.3, 1957, pp.383-400.

[84] For an argument in the context of comparison of the political economy of France and the UK, see Peter A. Hall, *Governing the Economy: The Politics of State Intervention in Britain and France* (Cambridge: Polity Press, 1986).

basically a mechanism of trying to secure consent for decisions made by ministers.'[85] This thesis does not intend to deepen this argument, however, mention must be made that the argument of corporatism led to demand for creation of multi-layered administrative structures and institutions.[86]

As the eclipse of the golden age of welfare states rose from stagflation and fiscal crises in the 1970s, a different academic agenda gathered attention within the terrain of politics. In particular, the neo-Marxian theory of the welfare state gained focus, and the aspect of socio-political structure was placed on the research agenda. Influential theorist for neo-Marxism, Louis Althusser, who divided the function of the state into the ideological state apparatuses and repressive state apparatuses, occupied by the dominant class and reflected in the class struggle, tried to revise the simple Marxian concept of states represented by class struggle and the dominant class.[87] In this analysis, he described 'two floors', consisting of the 'politico-legal' and the 'ideological', situated on the 'base', or 'infrastructure'. Here, outcomes arise from multiple 'determinants' within the interrelations among these two floors and the base, though the base is the 'determinant in the last instance'. Althusser expanded his theoretical argument and emphasised the existence of the 'relative autonomy' of states between these two floors, and to some extent the base.

In line with Louis Althusser, Nicos Poulantzas drew upon the concept of the state as a reflection of condensed social class or social formation.[88] These

---

[85] Jim Tomlinson, *Democratic socialism and economic policy: The Attlee years, 1945-1951* (Cambridge: Cambridge University Press, 1997), p.296.
[86] Walter Korpi, *The Democratic Class Struggle* (London: Routledge, 1983), chapters 1 and 2.
[87] Louis Althusser, 'Ideology and Ideological State Apparatuses (Notes towards an Investigation)', in Louis Althusser, *Lenin and Philosophy and Other Essays*, translated by Ben Brewster (London New Left Books, 1971).
[88] Nicos Poulantzas, *Political Power and Social Classes* (London: Verso, 1978),

methodologies resonated in a range of analyses on the relations between policies and the state.[89] Advancing the arguments of Poulantzas, Bob Jessop categorised state autonomy into relations between the state and the economy, relations between the state and class, and the extent to which the state has social relations of domination.[90] In this sense, Jessop expanded the concept of the state as 'qua structural' or a 'contingent institutional ensemble', as reflected in the social relations. He concluded that this 'functioning' state takes 'strategic selectivity', identified by the social relations, while it relatively autonomously places 'differential impact on balance of political forces'.[91]

---

originally published 1968. See also Nicos Poulantzas, *State, Power, Socialism* (London: Verso, 2000), originally published 1978, Introduction. Poulantzas created the divide between 'le politique' and 'la politique' which respectively refer to the legal political structure and the practical arena of class struggle. Poulantzas asserted that the state retains relative autonomy from class struggle but is constrained by the mode of production. Therefore states are inevitably determined in the long-term to support the capital class through policies, which results in the collapse of the integration of the labour class.

[89] James O'Connor argued that public outlays have two purposes: to bolster private profit accumulation, and provision of social expenditure in order to bolster political or capitalist legitimation. See O'Connor, *The Fiscal Crisis of the State*. 'Social expenditures' refers to social investment and social consumption. Ian Gough further stressed the constraints of the modes of production and class conflict on the state role. See Ian Gough, *The Political Economy of the Welfare State: Critical Texts in Social Work and the Welfare State* (Basingstoke: Macmillan, 1979). In line with O'Connor, political sociologists such as Claus Offe used this theory to explain the crises of capitalism. Offe argued that self-contradictory policy aporia, unpalatable for the capital class and which aims to exert negative impact on private profit accumulation through social policies, triggers crisis within the subsystems of the economic system, political administrative system and normative (legitimation/mass royalty) system. See Offe, *Contradictions of the Welfare State*. Offe, *Disorganized Capitalism*.

[90] Bob Jessop, *State Theory: Putting the Capitalist State in its Place* (Cambridge: Polity Press, 1990), pp.85-94.

[91] Ibid., pp.7-10. Jessop propounded the argument, termed the Strategic-Relational Approach, in which the core apparatus of state is interdependent with institutions and social practices. In this respect, the state is embedded in society. On the other hand, power relations are reified within the complex social relations and affected by the autonomous power of the state. See Bob Jessop, *State Power: A Strategic-Relational Approach* (Cambridge: Polity Press, 2008), General Introduction.

However, this neo-Marxist theory has received criticism from academics focusing on institutional aspects. Theda Skocpol provoked critiques and revisions of functional and equilibrium, and neo-Marxian state theory. She combined the multi-layered administrative organisations into state theory and considered the state as a set of administrative institutions managed by use of ‘power’, drawing on resources in order to self-enhance.[92] Following Skocpol’s argument, numerous commentators have endeavoured to reinvestigate the historical development of states, particularly in the terrain of welfare states, and highlighted the institutional configuration, such as the power distribution amongst monetary authorities and the development of the ideas of governmental officials.[93]

Curiously enough, these very different concepts of the state of Skocpol, and Althusser and Poulantzas, have led to the similar concept of ‘relative autonomy’ and ‘reciprocal action’. One significant methodological gap between the two schools is that for Skocpol, the state is a self-enhancing organisation that draws on resources, whereas Althusser and Poulantzas acknowledge multiple determinants, as constrained by the base. In this sense, academic interest

---

[92] Theda Skocpol, *States and Social Revolutions: A Comparative Analysis of France, Russia and China* (Cambridge: Cambridge University Press, 1979), pp.28-31. See also, Theda Skocpol, ‘Bringing the State Back in: Strategies of Analysis in Current Research’, in Peter B. Evans, Dietrich Rueschemeyer and Theda Skocpol (eds.), *Bringing the State Back in* (Cambridge: Cambridge University Press, 1985), pp.3-37.
For the difference between the theories of Skocpol and Moore, showing the distance between Skocpol’s work and Marxist methodology, see Ira Katznelson, ‘Structure and Configuration in Comparative Politics’, in Mark Irving Lichbach and Alan S. Zuckerman (eds.), *Comparative Politics: Rationality, Culture, and Structure* (Cambridge: Cambridge University Press, 1997), pp.81-112.

[93] Margaret Weir, Ann Shola Orloff and Theda Skocpol, ‘Introduction: Understanding American Social Politics’, in Margaret Weir, Ann Shola Orloff and Theda Skocpol (eds.), *The Politics of Social Policy in the United States* (Princeton: Princeton University Press, 1988), pp.3-27. Peter A. Hall (ed.), *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton: Princeton University Press, 1989).

transferred from the class structure or purely pluralistic view towards focus on the state as interaction among institutions or social relations.

With the concept of states as a set of institutions consisting of complicated bureaucracy and administrative organisations, or the reflection of social relations, clarification became necessary of how decision-making was made within such complex institutional organisations. However, it can be said that this requirement has still not been fulfilled; rather, institutional approaches lacking detailed historical analysis have been influential. In a notable example in the field of political economy, Peter Hall has focused on institutional factors for theorising analysis of public policies. Hall defined institutions as 'formal rules, compliance procedures, and standard operating practices that structure the relationship between individuals in various units of the polity and economy.'[94] Then, he asserted that the institutions 'bind the components of the state together and structure its relations with society', 'structure the interactions of individuals' and that they put their 'own image on the outcome'.[95]

Following the argument of Hall, so-called 'historical institutionalism' gathered, though perhaps ephemeral, academic interest. Ikenberry identified the main arguments of historical institutionalism thus: political structures and institutional configurations determine policy outcomes and orientations (the historical process is key for analysis of this), while emphasis is placed on the impact of institutional structures on the actions of individuals and groups. This interacts with other factors, such as ideology and policy ideas.[96] This argument stressed the importance of extending analytical scope towards meso-level institutions,

[94] Hall, *Governing the Economy*, p.19.
[95] Ibid.
[96] G. John Ikenberry, 'History's Heavy Hand: Institutions and the Politics of the State', *Paper Prepared for a Conference on 'New Perspectives on Institutions'*, 1994, p.2.

such as the representatives of trade unions and adversarial politics, and their impact on political actors.[97]

However, these assumptions, in which static institutions set actors' behaviour and utility functions, risk becoming mired in partial equilibrium. Analysis must be made alongside the change of institutions, then description can be made of the dynamics of institutional change. Although Ikenberry has stressed the importance of a historical perspective, this methodology was gradually taken by institutional economics and detailed historical analysis waned. For this, a significant contribution can be found in North's work expanding Oliver Williamson's theory analysing the behaviour of firms through transaction costs. As seen above, North suggested that transaction costs and increasing returns from institutions are crucial for institutional path dependence and change.[98]

Subsequently, Paul Pierson has applied this institutional economic analysis to the terrain of politics.[99] Pierson concluded that the process of increasing returns arising from institutions, which has self-reinforcing and positive feedback effects, would be 'prevalent in politics' through the central role of collective actions; the high density of institutions; the possibilities for using political

---

[97] Notable research includes: Kathleen Thelen and Sven Steinmo, 'Historical institutionalism in comparative politics', in Sven Steinmo, Kathleen Thelen and Frank Longstreth (eds.), *Structuring politics: Historical institutionalism in comparative analysis* (Cambridge: Cambridge University Press, 1992), pp.1-32. Monica Prasad, *The Politics of Free Markets, The Rise of Neoliberal Economic Policies in Britain, France, Germany, and the United States* (Chicago: The University of Chicago Press, 2006). Peter A. Hall, 'Central Bank Independence and Coordinated Wage Bargaining: Their Interaction in Germany and Europe', *German Politics and Society*, Vol.31, 1994, pp.1-23. Also see Paul Pierson and Theda Skocpol, 'Historical Institutionalism in Contemporary Political Science', in Ira Katznelson and Helen V. Milner (eds.), *Political Science: The State of the Discipline* (New York: W. W Norton & Company, 2002), pp. 693-4.
[98] North, *Institutions*.
[99] Paul Pierson, 'Increasing Returns, Path Dependence, and the Study of Politics', *The American Political Science Review*, Vol.94, No.2, 2000, pp.251-67.

authority to enhance asymmetries of power, and intrinsic institutional complexity and opacity. Here, the certain time scale of relations of this self-enforcing process backed by positive feedback, termed path-dependence, determines the multiple outcomes of institutional change or its inertia.[100] This institutional approach was advanced by Avner Greif, who offered the critique that the theory of institutional economics did not adequately consider motivation consisting of expectations, belief and internalised norms. Greif then emphasised that this motivation has a critical effect in enhancing institutional behaviour.[101]

This argument can be considered an attempt to include the important concepts of 'original institutionalism', and a more realistic assumption of individuals, and to encompass the concept of 'idea', which has been focused on academically since the 1980s to explain historical continuity and change.[102] However, as Avner Greif and Joel Mokyr have assessed, there is no doubt that these theories are based on neoclassical assumptions, in which transaction costs and rational individuals under uncertainty are embedded.[103] The issue arises here that this methodology can delineate only one-way or linear history,

---

[100] For a comprehensive explanation of path-dependence and institutional change combining the concept of time, see Paul Pierson, *Politics in Time: History, Institutions, and Social Analysis* (Princeton: Princeton University Press, 2004).

[101] Avner Greif, *Institutions and the Path to the Modern Economy: Lessons from Medieval Trade* (Cambridge: Cambridge University Press, 2006), pp.8, 384.

[102] For analysis focusing on 'idea' in the governmental process, see Peter A. Hall (ed.), *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton: Princeton University Press, 1989). In the context of international monetary reform, see John S. Odell, *U.S. International Monetary Policy: Markets, Power and Ideas as Sources of Change* (Princeton: Princeton University Press, 1982).

[103] Avner Greif and Joel Mokyr, 'Institutions and economic history: a critique of Professor McCloskey', *Journal of Institutional Economics*, Vol.12, No.1, 2016, pp.29-41, recognised that institutional politics and economics maintain the assumption of rational individuals, reminiscent of the central dogma of neoclassical economics.

not drastic but incremental change, in which institutions are the driving force to constrain the behaviour and interests of individuals.

On the other hand, some institutional analysis has applied game theory, and attempted to describe the interplay of institutions and its impact on the economy, deepening the argument of 'varieties of capitalism'. Peter Hall and Daniel Gingerich used the concept of 'complementarities': one set of institutions would provide additional benefits available for others, in order to describe more complicated interactions among institutions or actors. There is no doubt that the main target of varieties of capitalism can be perceived as to create a more tenable typology focusing on the various institutional configurations or complementarities, such as labour regulations, fiscal policies, fringe benefits, central banking structures, and so on.[104] However, this research cannot be assessed as escaping from the assumption that behaviour of individuals and firms is fundamentally constrained by institutions. The assumptions made limit the conclusions reached, becoming mired into a tautology in which institutions create a heterogeneity of capitalism constrained and characterised by its institutions. As seen in the work of Peter Hall, capitalism with a liberal market economy tends to achieve a higher economic growth rate with liberal economic policies.[105] It is necessary to highlight here that, surprisingly, history played a

[104] Peter A. Hall and David Soskice, 'An Introduction to Varieties of Capitalism', in Peter A. Hall and David Soskice (eds.), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: Oxford University Press, 2001), pp.1-68. Peter A. Hall, 'Central Bank Independence and Coordinated Wage Bargaining: Their Interaction in Germany and Europe', *German Politics and Society*, Vol.31, 1994, pp.1-23. Peter A. Hall and David Soskice, 'An Introduction to Varieties of Capitalism', in Bob Hancké (ed.), *Debating Varieties of Capitalism: A Reader* (Oxford: Oxford University Press, 2009), pp. 21-74.

[105] Peter A. Hall and Daniel W. Gingerich, 'Varieties of Capitalism and Institutional Complementarities in the Political Economy: An Empirical Analysis', *British Journal of Political Science*, Vol.39, No.3, 2009, pp. 449-82. This paper acknowledged the statistical significance of co-ordinated market economies

marginalised role in the theoretical arguments of historical institutionalism and varieties of capitalism, which has contributed to the resulting static research outcomes and methodology.

1.3.4 Foci for this thesis: state theory

As seen in the survey above, state theory and the development of institutional approaches are analysed through the lens of elements conducted by states (money and taxation), the decision-making process and 'power' distribution in concrete and abstract terms (pluralism, corporatism, Marxian politics), and systematic institutional factors (Marxian politics and institutionalism). It will be shown in this thesis that of great importance, in the context of the late Bretton Woods era, is, firstly, that the components of 'infrastructural power', such as money and taxation, were not managed by a sole state's own government, but were internationally co-ordinated and mutually affected. If focus is placed on international monetary co-operative schemes, the value of money was controlled both through the domestic terrain and international co-ordination.

Furthermore, if focus is placed upon the decision-making process, it becomes clear in the context of the late Bretton Woods era that domestic economic policies were not or could not be determined by a sole government, because economic policies and currency management were inextricably intertwined. State theory ought not to neglect this aspect in its framework, as can be perhaps seen in the focus on states as social relations, because international monetary relations somewhat determined states' social relations.

---

adapting to non-liberal economic policies.

Finally, institutionalism provides a useful framework, however, there is an unclear aspect when it comes to ‘crisis’ or significant economic shocks. During the late Bretton Woods era, such crises influenced or changed the actors’ utility functions, ideas, political calculations and policy goals, prompting institutional change. These changes are not adequately described by the institutional approach, which is based on relatively static assumptions of economics. Therefore, it is necessary to reinvestigate the interplay among international monetary relations and fiscal and monetary policies, through the lens of the historical decision-making process which provides the strongest methodology to clarify the complexity.

1.4 The structure of this thesis

This thesis is formed of eight chapters. The first chapter presents an introduction, orienting the present work in the existing research and theoretical frameworks.

Chapter 2 considers how the UK and US conducted management of gold prices between 1960 and 1964, focussing on the creation of the gold pool and the establishment of the Federal Reserve swap lines. This chapter reveals the significant conflicts over the management of gold prices between the US and the UK. It will be shown that both sides reached agreement due to their political calculations and ambitions to take the reins of international and domestic political economic agendas.

Chapter 3 investigates UK long-term interest rates policies from 1962 to 1965, and elucidates divergence between UK and US policy, making comparison to ‘Operation Twist’. This chapter explores theoretical arguments concerning interest rates policy and how the UK government came to water-down the manipulation of long-term interest rates during this period.

Chapter 4 moves on to explore the management of sterling and tax reform in the 1965 budget, with close focus on the formation of corporation tax. This chapter examines the dynamic political arena in which corporation tax was formed, considering the context of managing the balance of payments deficit and external pressures.

Chapter 5, closely linked to Chapter 4, considers debt management and defence of sterling in Labour’s tax reform of 1965, focusing on long-term capital gains tax. This chapter investigates the decision-making process behind this aspect of tax reform, considering the discussions, disputes and rationale within the Labour government and across financial institutions. Chapters 4 and 5 clarify how ‘socialist tax’, focusing on corporation tax and long-term capital gains tax, emerged as reduction in the revenue generated by company taxation and with the existence of a loophole within capital gains tax.

Chapter 6 explores preparation for the devaluation of sterling in 1967, considering the accompanying measures and the road to Labour’s ‘draconian’ budget. This chapter explores how the quantity and quality of Labour’s fiscal policies were affected by the devaluation. This chapter also considers ‘British social democracy’ in the context of progressivity and selectivity in the wake of devaluation.

Chapter 7 covers the period after the devaluation of sterling, focusing on the transition to a floating exchange system in 1972. This chapter considers the rise of European monetary co-ordination, and the Anglo-American relationship. It also explores the UK's monetary strategy to achieve maximum benefits from relations with the US and EEC, focussing on the transitional period between the Nixon shock and the decision to float sterling.

Each of the above chapters two to seven close with a conclusion. Chapter 8 presents a final conclusion to this thesis.

Chapter 2: Anglo-American co-ordination during formation of the gold pool and the dollar swap arrangement between 1961 and 1962

'Watch and pray – and sell dollars' [106]

2.1 Economic background

The fragility of the Bretton Woods system was revealed in 1958. With the emergence of a persistent US balance of payments deficit, the credibility of the US dollar faltered when the proliferation in US foreign aid, defence expenditure abroad, overseas private investment and excess of imports became prominent.[107] Consequently, the $3,556 million current account surplus in 1957 plunged into a deficit of $2,138 million in 1959 and liquidity based balance of payments deficits amounted to $3,365 million in 1958 and $3,870 million in 1959.[108] In parallel, the introduction of the *de facto* convertibility of currencies in 1958 encouraged foreign central banks to retain their reserves as gold and accelerated the outflow of the US gold reserve. This period represented the shift from dollar shortage to dollar glut.[109]

However, the nominal and variable indicators, including numeraire, demonstrate that the period from 1959 to 1971 is considered the most 'stable

[106] The National Archives, Kew (henceforth, TNA), PREM11/4203, Prime Minister to the Chancellor: The Almighty Dollar, 22 May 1962.
[107] Meltzer, *A History of the Federal Reserve, Vol.2,* p.26.
[108] James, *International Monetary Cooperation Since Bretton Woods*, pp.154-5.
[109] Cohen, *Organizing the World's Money*, pp.98-9. Also, Triffin, *Gold and the Dollar Crisis*.

era' and is discerned as the 'heyday' of Bretton Woods.[110] This fallacy of composition existed between concerns over potential crises and figures which were statistically steady, both inextricably intertwined with political co-ordination among industrialised countries.

Figure 2-1: Interest Rates and Foreign Reserves (£ Millions, $ Millions)

Year	FF Rate (US)	Bank Rate (UK)	Foreign Reserve (UK)	Gold Holdings (UK)	Gold Certificate (US)
1958	2.15%	4.00%	3,105	2,807	19,951
1959	3.36%	4.00%	2,801	2,514	19,164
1960	3.53%	5.00%	3,719	2,801	17,479
1961	3.00%	6.00%	3,318	2,267	16,615
1962	3.00%	4.50%	3,308	2,581	15,696
1963	3.23%	4.00%	3,147	2,484	15,237
1964	3.55%	7.00%	2,316	2,136	15,075
1965	4.04%	6.00%	3,004	2,265	13,436
1966	4.50%	7.00%	3,100	1,940	12,674
1967	4.19%	8.00%	2,695	1,291	11,481
1968	5.17%	7.00%	2,422	1,474	10,026
1969	5.87%	8.00%	2,527	1,471	10,036
1970	5.95%	7.00%	2,827	1,349	10,457

Source: Federal Reserve Bulletin and Board of Governors of the Federal Reserve System.

US President Eisenhower was faced with the substantial balance of payments deficit and began tough and bitter negotiations with West Germany to

[110] Bordo, 'The Bretton Woods International Monetary System: A Historical Overview', in Bordo and Eichengreen (eds.), *A Retrospective on the Bretton Woods System*, pp.4-28.

unencumber the military burden with meticulous care in the context of the Cold War.[111] In spite of these efforts, the gold market plunged into a period of turbulence. In March 1960, the Bank of England (henceforth, the Bank) sold gold to maintain gold price stability when the London gold price exceeded the existing $35.00 per ounce US gold parity. However, the US Treasury was reluctant to cover the gold spent by the Bank in order to manipulate the gold price.[112] Due to this, the Bank did not intervene in the gold market significantly when on 20 October 1960, during the US Presidential campaign, the London gold price touched $40.00 an ounce.

This 'gold crisis' provoked presidential candidate Kennedy to promise stalwart countermeasures to manage the balance of payments deficit. On 31 October, Senator Kennedy made a statement in which he pledged to maintain the value of the dollar.[113] Subsequently, in November, the US and seven other

---

[111] Gavin, *Gold, Dollars, and Power*, pp.34-5. In July 1960, Adenauer, Chancellor of West Germany, informed the US government that he was less concerned about the settlement of the balance of payments than strengthening the West alliance by nuclear armament. Adenauer's intransigent stance disrupted US intentions to reduce the balance of payments deficit through reduction in US forces stationed in West Germany. See ibid., pp.45-50. Regarding the negotiation process between the US and Germany, see ibid., pp.59-75.

[112] This friction was one of the causes behind the non-intervention of the Bank. See Schwartz, *Money in Historical Perspective*, pp.339-42. In the late summer of 1960, Humphrey Mynors, Deputy Governor of the Bank, alerted Alfred Hayes, President of the Federal Reserve Bank of New York, to the possible surge in gold price. See Forrest Capie, *The Bank of England 1950s to 1979* (Cambridge: Cambridge University Press, 2010), pp.160-1.

[113] A Statement by Senator John F. Kennedy on the Balance of Payments, Philadelphia, Pennsylvania, October 31 1960 in Rovert V. Roosa, *The Dollar and World Liquidity* (New York: Random House, 1967), Appendix I, pp.265-70. This statement pointed out that the principal causes of the deficits were the expansion of foreign expenditure including military and economic aid, the existence of trade barriers against US goods and capital controls blocking investment in the US, inadequate interest rates policy operated by the Federal Reserve pursuing bills-only policy, and so on. Additionally, this statement enumerated the removal of artificial barriers against US goods, flexible monetary and fiscal policy, modernisation and development of human capital as conceivable countermeasures.

countries embarked on the impromptu sale of gold in London, which was conducive to the formation of the 'gold pool'.[114] Concomitantly, European central banks established an 'informal pact' not to purchase gold in London for monetary purposes above the gold point, which was $35.20.[115]

On 27 December, President-elect Kennedy's task force, chaired by George Ball, Under Secretary of State, prepared what was considered an audacious report, however, it was shelved because it contained a drastic proposal of international monetary reform.[116] In place of this report, on 18 January 1961, an alternative special report made by former President of the Federal Reserve Bank of New York (henceforth, FRBNY) Allan Sproul, and the economists Roy Blough and Paul McCracken was handed to Kennedy.[117] Consequently, on 6 February Kennedy announced his intention to defend the dollar parity, and

[114] Susan Strange, *International Monetary Relations* (Oxford: Oxford University Press, 1976), p.76. Solomon, *The International Monetary System*, p.36. This was known as the 'gentleman's agreement', see also Capie, *The Bank of England*, p.162.

[115] Schwartz, *Money in Historical Perspective*, p.342. Schenk points out that this 'informal pact' was the foundation of an institutionalised gold pool, see Schenk, *The Decline of Sterling*, p.246.

[116] Robert Solomon, *The International Monetary System, 1945-1981* (New York: Harper and Row, 1982), p.38. This report suggested informal consultation with companies over their overseas investment, legislative restraint on cost-price structures, income support for agriculture, and the shift in the burden of US foreign aid to beneficiaries through compulsory expansion of imports from the US. This plan was viewed as audacious because of its potential to place significant restraint on market discipline, conflicting with liberalising trade and transactions under the influence of GATT.

[117] Report in Bank of England Archive, (henceforth, BoEA), OV31/76, and Roosa, *The Dollar and World Liquidity*, pp.271-99. This report covered a broad range of topics such as the declaration of intention to defend the dollar, the abandonment of Regulation Q, export promotion, tax reduction rather than expansion of government expenditure, debt management including Operation Twist, increase in productivity, removal of tax incentives to discourage capital outflow, and elimination of discriminatory practices against the US.

intermittently established a series of domestic policies with great attention to the balance of payments.[118]

Meanwhile, industrialised countries and central banks co-operated to bolster the fissured international monetary system, in a move which was known as the 'outer perimeter defences'. In March 1961, the FRBNY, having commenced sale of West German marks in the forward market, required the acquisition of foreign currencies in order to bolster the value of the dollar through purchase.[119] Following this, the gold pool was established to directly contain its price within the shipping parity, the FRBNY used the three-month credit swap lines to obtain foreign currencies for foreign exchange intervention to restore confidence in the dollar, and absorbed the dollar spread through the European financial market.[120] In addition, the US issued the foreign-currency-denominated non-marketable bond which was convertible into the US Treasury bill, and attempted to repay the swap liability without putting pressure on US short-term outflow. This chapter explores the political process of formation of notable central bank co-operative schemes: the gold pool and Federal Reserve swap lines.

---

118 These policies included a credit guarantee from the Export-Import Bank, a reduction in the duty free allowance from $500 to $100, and the prohibition of the retention of gold abroad by US corporations and individuals. Kennedy prioritised management of the balance of payments deficit and avoidance of nuclear war. See Arthur Schlesinger, *A Thousand Days: John F. Kennedy in the White House* (New York: Fawcett Premier, 1971), originally published 1965, p.601.

119 The FRBNY began to sell West German marks on 13 March 1961 in the forward market, and was authorised to conduct foreign exchange operations in both spot and forward markets by the Federal Open Market Committee on 13 February 1962. The US Treasury had the authority to veto the operation of the Federal Reserve, and the Federal Reserve could also refuse to take any operation related to its own fund. See Coombs, *The Arena of International Finance*, pp.71-2.

120 Schwartz stated that this swap served to provide forward cover to official foreign dollar holders and discourage them from converting their own dollars into gold. See Schwartz, *Money in Historical Perspective*, p.340.

2.2 In the context of international relations

Bordo has argued that one of the distinctions of the ‘convertible’ Bretton Woods system from 1959 to 1971 was US dominance over the international monetary order.[121] This prestigious position, backed by the dollar and combined with the power of the nuclear deterrent, embodied US international hegemony.[122] From this account, some have emphasised that with this hegemonic power, the US played a paramount role in resolving conflicts in the international sphere and establishing institutions, including the free trade area and international monetary co-operative schemes.[123] These liberal multilateral economic relations were espoused with ‘Keynesian’ policies, and configured as ‘embedded liberalism’

---

[121] Bordo, ‘The Bretton Woods International Monetary System: A Historical Overview’, in Bordo and Eichengreen (eds.), *A Retrospective on the Bretton Woods System*, p.48. Bordo gave four other characterisations of the Bretton Woods system after 1958: decline in the standing of the IMF; rise of the dollar and decline of sterling as reserve currencies; transformation of the exchange rate system from the adjustable peg to *de facto* fixed; and heightened capital movement.

[122] Gilpin, *The Political Economy of International Relations*, p.134.

[123] For the arguments of realism or hegemonic stability theory, which emphasise the order as maintained through somewhat coercive means or hierarchical power structures, see chapter 1 of this thesis. For a general account on the chronological developments of US foreign economic policies, see Krasner, *Power, the State, and Sovereignty*, pp.58-61. Contrary to the argument highlighting the hegemonic power of the US, there is an argument that stressed US power as ‘weaker’ than other industrialised countries due to its decentralised political system. See ibid., pp.42-8. However, it should be noted that foreign economic policies were distanced from the political system and domestic factors diluted their formation. Katzenstein, ‘Introduction: Domestic and International Forces and Strategies of Foreign Economic Policy’, in Katzenstein (ed.), *Between Power and Plenty*, p.18, Therefore, even if the description of the US domestic administrative system as ‘weaker’ is applicable, it does not directly describe the status of the US in international society. The behaviour of the state in pursuit of objectives which are not reflective of the demands of social groups is reinterpreted by Skocpol in the argument of ‘state autonomy’. See Theda Skocpol, ‘Bringing the State Back in: Strategies of Analysis in Current Research’, in Peter B. Evans, Dietrich Rueschemeyer, and Theda Skocpol (eds.), *Bringing the State Back in* (Cambridge: Cambridge University Press, 1985), p.9.

which came to characterise the post-war economic climate.[124] This 'embedded liberalism' perceived harmonisation between domestic economic policies, represented by Keynesian policies, and a liberal international market which was driven by multilateral international economic relations.

However, when focus is placed upon the economic hegemony of the US, which is considered to have created the foundation of post-World War II multilateral international relations, a contrasting facet can be observed. This was seen in the paradoxical aspects of the late Bretton Woods system, such as the waning of US economic hegemony with decline in the dollar and emergence of international monetary co-operation, which showed statistical stability and provoked perennial *ad hoc* contingency management. With this economic instability, the dominant paradigm of US hegemony shifted and was exposed to rebuttal, leading to the need to reinvestigate the unilateral US economic and political power in the international sphere.[125] Here, the US's inclination for achieving external support or international co-operation gathered academic attention. In the context of the 1960s, the US, under the early stages of the Kennedy administration, sought to sacrifice the dollar's prominent payment role, relying on concessions from its counterparts.[126] From the British perspective, the US was forced to defend sterling with the sacrifice of its reserves for military support from the UK, and the UK was able to draw on US support partly because the US was concerned with the switching of sterling into dollars and its

[124] Ruggie, *Constructing the World Polity*, pp.72-8. For a brief account of the development from the original work of Keynes to Keynesian economics, see chapter 6 of this thesis.
[125] For example, Lundestad argued that the US in the decades following World War II was an 'invited empire', forged by European demand for economic and military assistance in the context of reconstruction and the Cold War in order to thwart the resurgence of extremism. Lundestad, *The United States and Western Europe since 1945*, p.55.
[126] Gavin, *Gold, Dollars, and Power*, pp.80-8.

conversion into US gold.[127] In addition, various international monetary co-operative schemes were established in order to bolster the value of the dollar, and in the last instance, protecting the dollar-gold standard of the Bretton Woods system.

These aspects shifted academic interest to international co-operation, harmonisation and concord, as opposed to coercive means of resolving conflict amongst 'rational states' backed by the concept of equilibrium theory under the hegemonic state. International political economic perspectives have gravitated towards unfolding historical developments, *ipso facto*, the coercive means of hegemony that the US maintained in the post-war era was reinterpreted as a co-operative system providing mutual interests for member countries.[128]

Despite the conceptual shift to a system which provided mutual or reciprocal benefits, in historical analysis there still existed a non-negligible counter-hegemonic current and international political conflicts, interspersed with co-operative aspects.[129] Simultaneously, a great deal of existing historical research describing Anglo-American or international relations from a strategic or political

---

[127] Schenk, *The Decline of Sterling*, p.204.

[128] The argument of mutual economic interests arising from membership of an international system or order can be seen in theories of structural realism and the liberal international order. For a general explanation of mutual economic interests, see Ikenberry, *Liberal Order and Imperial Ambition*, pp.88-107. Also see chapter 1 of this thesis.

[129] For example, on the Suez crisis in Diane Kunz, *The Economic Diplomacy of the Suez Crisis* (London: The University of North Carolina Press, 1991). European integration and the sterling position in Milward, *The European Rescue of the Nation-State*, and in Ellison, *Threatening Europe*. The Dillon Round in Alan P. Dobson, *The Politics of the Anglo-American Economic Special Relationship, 1940-1987* (Brighton: Wheatsheaf Books, 1988). The conflict over military armament in Andrew Priest, *Kennedy, Johnson and NATO: Britain, America and the dynamics of alliance, 1962-68* (London: Routledge, 2006); de Gaulle's challenge in James Ellison, *The United States, Britain and the Transatlantic Crisis: Rising to the Gaullist Challenge, 1963-68* (Basingstoke: Palgrave Macmillan, 2007).

point of view has also provided analysis describing international co-operation.[130] Thus, both aspects of conflict and co-operation have been dominant within the theories of international relations and in historical research, especially in works which have focused mainly on military and political perspectives. However, the aspect of international economic and political relations within the broader context of currency management lacks investigation, or has at least been side-lined in existing research.[131] There is no doubt that this economic aspect played a significant role within Anglo-American and international relations. As Dobson suggests, 'In short, the fortunes of sterling, the US dollar, the Bretton Woods system, and Western defence were all interconnected and they all affected the special relationship'.[132] Which is to say, it is of great importance to comprehend and deepen understanding of the interconnection between countries concerning matters such as international economic factors, which in this chapter are investigated through analysis of international monetary schemes.

This chapter will focus on the UK's gold strategy, in particular the formation process of the gold pool and Federal Reserve swap lines from 1961 to 1962. O'Hara has delineated the conflict surrounding gold from 1960 to 1963 between the UK and the US from the perspective of foreign policy.[133] However, clarification of the negotiation process remains elusive. As such, it is imperative to decipher the conformity, compromise and discord in Anglo-American

[130] Young, for example, reinvestigated the origin of the 'special relationship', and shed light on the pragmatic political collaboration and operational level of co-operation in the military field. Ken Young, 'A most special relationship: The origins of Anglo-American nuclear strike planning', *Journal of Cold War Studies*, Vol.9, No.2, 2007, pp.5-31.
[131] Notable exceptions to this are Roy, The Battle of the Pound, and Schenk, *The Decline of Sterling.*
[132] Dobson, *Anglo-American Relations in the Twentieth Century*, p.125. Also, Gavin, *Gold, Dollars, and Power,* p. 197.
[133] Glen O'Hara, *Governing Post-War Britain: The Paradoxes of Progress, 1951-1973* (Basingstoke: Palgrave Macmillan, 2012), pp.53-72.

negotiations in order to comprehend the link between conflict and co-operation, which can provide a fresh perspective on what these political interactions resulted in within the domestic politics, and *vice versa*. Thus, this chapter attempts to break the dichotomy of conflict or co-operation in the international political arena, and to deepen understanding of what impact this complex political process had on domestic economic policies and politics.

2.3 Dollars or gold? The 'economic rational choice' of the gold pool

In July 1961, Anglo-American consultation hastened to form countermeasures amidst mounting pressure on gold prices in the London gold market which emanated from rising tensions over the Berlin crisis.[134] With the increase in gold prices in London, arbitrage transactions to convert dollars into gold at the US Treasury and to sell in London dragged down US gold reserves. On 17 July, Charles Coombs of FRBNY telephoned Maurice Parsons, Executive Director of the Bank, enquiring whether the facility of loans to the Bank against gold collateral would be possible.[135] He also enquired whether central banks could operate in gold only with each other.[136] Thus, the US side sought to defend the value of the dollar by putting direct influence on the London gold market.

However, Parsons at the Bank of England opposed the FRBNY's Coombs' suggestion. John Stevens, Executive Director of the Bank, expressed his

[134] Bordo, Humpage and Schwartz, *Strained Relations*, pp.177-8.
[135] BoEA, ADM13/4, Memorandum, Parsons to the Governor, 17 July 1961.
[136] BoEA, ADM13/4, Note of a conversation with Hayes and Coombs on 27 July, 1 August 1961.

misgivings about the prospect that the US might rush into imprudent schemes.[137] In line with John Stevens, Cromer, Governor of the Bank of England, took the US proposal of direct intervention to indicate emergence of a dual price system of central banks and 'hoarders', with potential to cause a disorderly situation in the gold market and damage confidence in the dollar.[138] Cromer additionally warned that although the US may please European central banks through provision of the right to influence the London gold market, the Bank should carefully avert provoking their 'ganging-up' against the UK.[139] Despite this resistance presented by the Bank, the US proceeded to initiate its proposals.[140] It is clear that the Bank was reluctant to accept this US influence on the London gold market and keen to defend the interest of the UK's autonomy over the gold market.

On 19 September 1961, Robert Roosa, Under Secretary for Monetary Affairs of the US Treasury, raised the discussion as to whether European central banks ought to buy gold in order to limit its price within the gold shipping parity of below $35.20 per ounce, which would result in the birth of the gold pool.[141] He also questioned whether the UK should hold its reserves in dollars rather than gold. Roosa asserted that maintenance of gold prices would have a 'mutual advantage' for the UK and US, both of which faced significant speculative pressure on their foreign reserves. He also stated that the central banks ought

[137] BoEA, G1/100, Report, Stevens to Cromer, 12 September 1961.
[138] BoEA, G1/260, Cromer to Rickett, 13 September 1961.
[139] Ibid. Cromer understood the US suggestion as 'partial inconvertibility of the dollar by persuasion'.
[140] President Kennedy stressed the significance of the co-operation of Western countries in dealing with the problem surrounding gold, in BoEA, G1/100, Extract from note of a meeting in Sir Frank Lee's room on 27 September 1961.
[141] TNA, T312/312, Note of a Meeting held at the Palais Palffy on Tuesday September 19 1961, 4.30 p.m. The gold shipping parity or US gold export point refer to the sum of the gold price (1 ounce $35) and transporting costs such as insurance.

to stay out of the gold market, and their gold transactions should be confined to the range defined by the shipping parity. In contrast to the enquiry of Coombs, Roosa emphasised the mutual interest of the US and UK in order to defend both currencies. Cromer responded that the amount of gold held by the UK was 'abnormally high', and with this in mind, he would carefully consider Roosa's suggestions.[142]

Despite Cromer's receptive response, Parsons argued that since the dollar portion of the UK reserves was high, it ought to increase the gold reserves for the use of purchasing dollars (Figure 2-1). In addition, he asserted that it would be more preferable to the UK if the US were to hold sterling in its reserves.[143] At this stage in negotiations, opinions within the Bank were split over whether the UK should yield to the demand to hold more dollars and reduce its gold reserves at this point. However, the preference for holding gold was relatively strong.

As the US sought to manipulate and control gold prices, the negotiation to form an institutionalised scheme gradually advanced. However, the Bank expressed its sceptical view of the establishment of a scheme that would see the direct manipulation of gold prices in London by central banks. With regard to the formation of a gold pool, the Bank asserted that central banks of such circuits were intrinsically 'buyers', and it would achieve 'nothing positive' without the natural selling members.[144] Moreover, the Bank anticipated that if these

---

[142] Ibid.
[143] TNA, T312/312, Note of a Meeting in Sir Frank Lee's Room on 27 September 1961. Regarding the increase of the sterling proportion in the US reserves, Roosa pointed out the inadequacy of the resources of the US Exchange Stabilization Fund and that wider powers were prerequisite for the acquisition of more sterling.
[144] TNA, T312/312, London Gold Market, paper provided by the Bank of England, 10 October 1961.

ideas leaked to the public it would prompt another dollar crisis, which would in turn affect the whole international exchange structure. The Bank recognised the US suggestions to increase dollar holdings and constrain central banks to contain gold prices within the shipping parity, as amounting to a two-tier gold market with a dual price system. Conclusively, the Bank remained sceptical of the US suggestion to form a coercive scheme to hold dollars as a 'useless/dangerous illusion'.[145] The main concern of the Bank was that if the US would not show its willingness to sell US gold, the market doubt surrounding the official parity price would intensify.[146] It is clear that the misgiving of the Bank was that the manipulation of the gold prices would cause or accelerate the demise of the international monetary system.

The Bank was also unwilling to accumulate large dollar holdings. Hence, the Bank suggested that the formation of a gold consortium based on a specific short-term loan would be 'indefinitely preferable'.[147] Concerning the scale of the gold pool, $200 million, which had been proposed by the US, was considered inadequate to contain the turbulence of the gold market, and was evaluated as 'chicken feed'.[148] Thus the Bank pursued increase in the gold ratio in its foreign reserves, while it also sought a loosely consolidated gold pool scheme.[149]

---

[145] Ibid.
[146] Ibid.
[147] TNA, T312/312, Gold-Talks with the Americans, the paper provided by the Bank of England, 10 October 1961. Concomitantly, the longstanding misgivings of the UK over the possibility of the change in gold price overshadowed incentive to increase its dollar holding. In addition, Parsons considered the possibility of floating the dollar and conceivable countermeasures in late 1960, see BoEA, ADM13/3, Letter to H.M. Treasury, attached note on International Exchange Relationships, 30 November 1960, and International Exchange Relationships, 30 November 1960.
[148] TNA, T312/312, Note of a meeting held in Sir Frank Lee's room, H.M. Treasury, Thursday 19 October 1961, 4.30 p.m. 'Chicken feed' in: TNA, T312/312, Vienna, report, Cairncross to Rickett, 13 October 1961.
[149] TNA, T312/312, Note of a meeting held in Sir Frank Lee's room, H.M.

On 20 October 1961, Sir Denis Rickett of the UK Treasury confirmed that Chancellor of the Exchequer Selwyn Lloyd was determined to repay the Fund Drawing, backed by the buoyant reserves that had been predicted to increase over £100 million between August and October. The repayment amount was envisaged at £75 million.[150] The objective of the UK Treasury was to maximise UK gold reserves, and to circumspect setting the level of gold holdings and flaring up a US backlash that sought the increase in UK dollar holdings. According to Rickett and Sir Frank Lee, Permanent Secretary to the UK Treasury, the UK was engaged in an initial reduction in gold liabilities.[151] In line with the advice of the Treasury, Prime Minister Harold Macmillan agreed the necessity to increase gold assets or reduce gold liabilities, and a £75 or £100 million repayment was permissible.[152] However, he meticulously prescribed,

> I hope this will not, repeat not, have a bad effect on the wage pause and all that. There is a danger that this repayment, coupled with the bank rate reduction may produce the wrong impression.[153]

While the Bank and the Treasury were preoccupied with the level of gold reserves or dollar holdings, the Prime Minister was highly concerned with the possible influence of monetary easing or repayment of gold liabilities to the IMF on society which was under strict incomes policy. The UK government faced the necessity to avoid domestic social or industrial conflict arising from the link

---

Treasury, Thursday 19 October 1961, 4.30 p.m.

150 TNA, PREM11/4203, Foreign Office to Washington, 20 October 1961. On 3 October, the Chancellor indicated setting a policy of repayment, in BoEA, G1/252, Note of a Meeting held in the Chancellor of the Exchequer's Room, Tuesday 3 October 1961, 3.00 p.m.

151 TNA, PREM11/4203, Rickett to Bligh, 21 October 1961.

152 TNA, PREM11/4203, Macmillan to Bligh, 22 October 1961.

153 Ibid.

between the wage pause and the reduction in the Bank Rate and repayment of foreign debt.[154] For this reason, Macmillan postulated a 'technical change', which was to disguise the transaction as a stand-by, rather than loan repayment.[155] He attempted to distract public attention from international monetary affairs by presenting this issue as a highly financially technical matter. Thus, foreign and domestic economic management was intertwined with adjustment of the UK gold holding collateral to the auspicious reserves circumstance.

On 23 October, the discussion progressed further. In a meeting at the Treasury, Roosa stated that central banks should contribute to confinement of the gold price into the parity on an 'ad hoc basis'.[156] He added that the US would conceive this measure as a 'conscious exercise of responsibility to the system as a whole and without any loss of the formal right to earmark gold'.[157] In this way, the US proposed a compromise in order to meet the UK gold preference and threatened a possible forfeiture of the right of gold earmarking should the UK decline this compromise. Following the above statement from Roosa, Parsons raised three questions over the adequacy of the scale of the gold pool: the reasonability of the prospect of 40-50 per cent of the pool as contributed by European central banks; the situation in which consortium would be implemented; and the duration of the gold pool. Roosa responded that he

---

[154] On 21 July 1961, the UK government introduced a 'July measure' with an indirect tax regulator including a 10 per cent surcharge on existing customs, purchase tax and excise duties. The Bank Rate was raised to 7 per cent and the pay pause was announced. On 5 October, the Bank Rate was reduced to 6.5 per cent and to 6 per cent on 2 November. Meanwhile, the pay pause and indirect tax regulator remained.

[155] Ibid.

[156] TNA, T312/312, Gold and the International Monetary System, Note of Meeting Held in Sir Frank Lee's Room, H.M. Treasury, London, Monday 23 October 1961, 10.30 a.m. and 3.00 p.m.

[157] Ibid.

calculated the size of contributions 'on the basis of preliminary indications of attitude on the part of Germany, France and Switzerland'.[158] Concerning the scale of the pool and the originally proposed $200 million fund, he confessed that it might not be sufficient. However, Roosa insisted that when the agreement should become apparent in the financial market, it would be propitious to unencumber the speculative pressure on the gold market.[159] Finally, Roosa implored UK officials to obscure the agreement with minimum procedure and no formal written agreement, requesting only simple agreed minutes of conversation.

In response to the above, misgivings over the international monetary situation and responsibilities fulfilled by the UK were expressed. Parsons contended that while the UK had formally undertaken $300 million working balances and $450 million from the IMF for repayment to the US, it had sold $1,700 million worth of gold, which meant that the UK held $1,000 million more than the agreement.[160] In his assertion, Parsons elucidated the UK's desire to hold gold, and explained that the UK should be entitled to earmark $450 million of gold, which was calculated as the $1,000 million Fund Drawing and $300 million working balance subtracted from the $1,750 currency balance. In turn, Roosa conceded, 'if at any time the United Kingdom wanted to present its $450 million dollars for conversion into gold the claim would be met without question'.[161] Moreover, he added,

[158] Ibid.
[159] With respect to the remaining two questions from Parsons, Roosa answered evasively.
[160] Ibid.
[161] Ibid.

> …the Bank of England could continue to intervene in the market and then, when the time came to earmark gold, the United States could bring its bilateral arrangements into effect with the result that the Bank of England would, to the extent agreed, collect gold from Europe rather than from New York.[162]

As a result of these negotiations, the UK successfully secured US concession of the right to earmark $450 million worth of gold and the right to increase the gold reserves in exchange for joining the gold pool.[163] Moreover, the Bank gained the implicit right to absorb gold from European countries.

On the other hand, US officials at the US Treasury and the Federal Reserve had a different ‘chief objective’: utilising the establishment of the gold pool to show Congress that European central banks were co-operative to US authorities.[164] At the Basle meeting held on 11 and 12 November 1961, Alfred Hayes, President of the FRBNY, hastened to promulgate the gold pool scheme since US monetary authorities would, at will, be investigated by the Congress Committee on the subject of gold.[165] Hayes stated that he would like to testify to Congress, ‘not only that the major countries were willing in principle to come into a gold pool scheme but that the scheme had in fact already operated’.[166] Thus, he proposed that ‘the scheme should be given a trial run of a month’.[167] It is clear that the FRBNY sought an established *fait accompli* to show Congress

---

162 Ibid.
163 Parsons asserted that maintenance of the reserves in gold should be a ‘long established policy’ and the corollary must be ‘to earmark up to the hilt at other times’, in BoEA, ADM13/4, Conversations at the Treasury on 23 October with Roosa and Martin, 25 October 1961.
164 BoEA, ADM13/4, Gold Syndicate Scheme, 15 November 1961.
165 See also in TNA, T312/312, U.S / European Gold Pool, from Sir Denis Rickett to Sir Frank Lee, 7 November 1961, and Coombs, *The Arena of International Finance*, p.52.
166 TNA, T312/312, Gold, 14 November 1961.
See also TNA, T312/312, J. Anson to D. J. Mitchell, Draft Minute to the Prime Minister: Gold, 14 November 1961.
167 TNA, T312/312, Gold, 14 November 1961.

that the Federal Reserve held the initiative to control the gold price in the international monetary field. Interestingly, records indicate that the gold pool consisting of buying and selling syndicates came into force on 6 November, almost a week ahead of this Basle meeting.[168]

Here, it is of value to explain the situation surrounding the complex US political economic circumstances while the above negotiations were unfolding. In the wake of the Berlin Crisis, President Kennedy sought to finance military expenditure with a $3 billion tax increase. However, in July 1961, Walter Heller, Chairman of the Council of Economic Advisers (CEA), harshly opposed this idea of tax increase and preferred tax reduction. Thus Heller sent Paul Samuelson of Massachusetts Institute of Technology to the President and successfully persuaded Kennedy to shelve this proposal to raise tax for the financing of growing military expenditure. In exchange for his shift in policy to finance the Berlin Crisis, Kennedy was forced to announce plans for a balanced budget in 1962.[169]

In this situation, the US monetary authorities composed of the US Treasury and the Federal Reserve came under pressure to mitigate the turbulence as confidence in the dollar faltered with the expansion of Federal government spending.[170] Political conflict surged between the US Treasury and CEA

---

[168] TNA, T312/312, Gold, 14 November 1961.
TNA, T312/312, From Sir Denis Rickett to Sir Frank Lee: Gold, 23 January 1962.
[169] Interview with Walter Heller in: Erwin C. Hargrove and Samuel A. Morley (eds.), *The President and the Council of Economic Advisers: Interviews with CEA Chairmen* (Colorado: Westview Press, 1984), p.199.
[170] Domestic political conflict over increase in government expenditure and tax cuts was ignited when Kennedy became President. In 1961, President Kennedy pursued balancing the budget and stimulating the economy, which crystallised in the introduction of investment tax credits and loosened depreciation guidelines, dubbed an ‘anti-recession cut’. These measures were evaluated as having the effect of a 10 per cent tax cut on corporations. Kennedy was forced

surrounding the assumption of initiative over the course of domestic fiscal policies. While the CEA contacted representatives of the Organisation for Economic Co-operation and Development (henceforth OECD), and requested they encourage President Kennedy to reconsider and repeal the tax increase, the US Treasury and the Federal Reserve sought to take the initiative towards international financial co-ordination and contain the movement toward tax reduction. Heller reflected on this period in an interview:

> The OECD people in Paris were part of our leverage on Kennedy. We had Van Lennep and others […] urging us to cut taxes in the U.S. rather than lower interest rates. So we got some leverage out of Paris and the OECD, and Kennedy was enough of an internationalist so that carried some weight with him.[171]

---

to present the fully balanced budget in January 1962 as a *quid pro quo* for eluding the tax increase to finance expenditure surrounding the Berlin Crisis. Thereafter, the CEA mobilised OECD representatives to whip Kennedy toward a tax cut. In this situation, a tax cut rather than increase in expenditure was enacted primarily through the compromise between the CEA and Treasury seeking tax reform. Regarding the increase in expenditure and tax cut according to archival documents, see Margaret Weir, 'Ideas and the politics of bounded innovation', in Sven Steinmo, Kathleen Thelen and Frank Longstreth (eds.), *Structuring politics: Historical institutionalism in comparative analysis* (Cambridge: Cambridge University Press, 1992), p.202. See also Schlesinger, *A Thousand Days*, p.598, and the interview with Walter Heller in Hargrove and Morley (eds.), *The President and the Council of Economic Advisers*, p.171-215, and Herbert Stein, *The Fiscal Revolution in America* (Chicago: The University of Chicago Press, 1969), p.422-53. Concerning the US inner-governmental discussion over monetary reform, see Gavin, *Gold, Dollars, and Power*, p.80-8, and Theodore C. Sorensen, *Kennedy* (New York: Smithmark, 1965), p.406-8. For the influence of the role of international monetary co-ordination and schemes for managing currencies, and for the global context in the participation in General Arrangements to Borrow (GAB), taking Japan as an example, see Yusuke Kashiwagi, *Gekidouki no Tsuuka Gaikou* (Tokyo: Kinyu Zaisei Jijyou Kenkyukai, 1972), and Keikichi Honda and Tadao Hata, *Kashiwagi Yusuke no Shougen: Sengo Nihon no Kokusai Kinyuushi* (Tokyo: Yuhikaku, 1998).

[171] Interview with Walter Heller in Hargrove and Morley (eds.), *The President and the Council of Economic Advisers*, p.202.

Heller's line as given in the interview is also evident in documents held by the Bank. In 1962, Roosa struggled against Heller, who was supported by George Ball and Walt Rostow, Director of Policy Planning, to prevent increase in government expenditure through drawing Kennedy's attention to the Canadian dollar devaluation.[172] Roosa orchestrated offsetting Heller's long-cherished tax reduction with the support of Douglas Dillon, Secretary of the US Treasury.[173] This inner conflict affected political configuration. When Kennedy considered the potential replacement of William McChesney Martin, Chair of the Board of Governors of the Federal Reserve System, who also sought to establish central bank co-operation, his line was suddenly reversed as co-operative international monetary schemes were forged. Heller delineated his suspicion over the involvement of Dillon in this matter:

> In mid-1961, in fact, until fairly late in 1961, Kennedy was still thinking of replacing Martin, but as the date for reappointment or new appointment came up, Martin's standing in the domestic and international financial community kept rising—I'm sure Doug Dillon had something to do with this—and by the time the date arrived, Kennedy had decided to reappoint Martin.[174]

From the above arguments, it is evident that the US Treasury and Federal Reserve were mired in conflict with the CEA and Congress over the issues of taxation and the initiative for international monetary co-ordination. This affected the position of the Federal Reserve in US politics. This conflict can be understood as a driving force that led the Federal Reserve, FRBNY and US

172 BoEA, ADM13/5, Note of a conversation with Roosa, 25 June 1962.
173 Ibid.
174 Interview with Walter Heller in Hargrove and Morley (eds.), *The President and the Council of Economic Advisers*, p.191.

Treasury to hasten the establishment of the gold pool. The formation of the gold pool provided a route for officials at the Federal Reserve and US Treasury to push through political obstacles in pursuit of their chief objective, 'hard-currency'.[175] Therefore, the objectives of the US monetary authorities, which were to avoid interference by Congress and to enhance their role in foreign economic policy in domestic and international political arenas, were achieved by establishment of the gold pool. While these monetary authorities, the Federal Reserve and the US Treasury, got involved in political strife, the UK retained its right to earmark $450 million worth of gold and secured its independent discretion to intervene in the London gold market.

Here, it is useful to consider the difference in Anglo-American political structures. While the US political configuration described above, in part, drove the establishment of international co-operative monetary schemes, a key difference between the UK and US is evident in divergent policy outcomes. A notable difference can be seen in the influence of the CEA, an agency not in the web of bureaucratic structures but within the Whitehouse itself, which can sometimes create vertical rather than horizontal power relations with governmental departments. The chairmen of the CEA are nominated by the President and required to achieve Senate confirmation. In addition, CEA members are appointed by the President. Margaret Weir has asserted that this feature provided 'open recruitment procedures', and proved a significant driving force for drastic policy change.[176] On the other hand, UK economic advisors are

---

[175] Meltzer, *A History of the Federal Reserve, Vol.2*, pp.290-301. For Heller's evaluation of the 'hard money men' at the Fed, see chapter 3 of this thesis.

[176] Margaret Weir, 'Ideas and Politics: The Acceptance of Keynesianism in Britain and the United States', in Peter A. Hall (ed.), *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton: Princeton University Press, 1989), pp.53-86. Weir argued that difference in the structure of government between the US and the UK was one of the decisive factors behind

required to serve within bureaucratic departments, amongst which the Treasury has had significant influence on economic policy making. For Weir, this created a rigorous bureaucratic structure in which ideas are brought forth by civil servants rather than economists in the American sense. This amounts to a limit on the power of economists and creates a path of incremental and linear rather than drastic and non-linear change.

Of great importance here is that the US political structure can be considered as bestowing great power to the economists of the CEA, chosen by the President. In the US, at least under the Kennedy administration, the President could mobilise the significant influence of the CEA, and use it as a bulwark against the pressure of the US Treasury and Federal Reserve. This political configuration and conflict created a path towards the international monetary co-operative schemes, which were essential for the US Treasury and Federal Reserve to limit the influence of Congress and the CEA within the political arena. In contrast, the UK Prime Minister did not possess such political arms with which to buffer the influence of the UK Treasury and the Bank.[177]

Therefore, divergent Anglo-American political interests, the UK's preference for gold and the US's moves for dollar management, driven in part by the political institutional configuration of both countries, converged to form the gold pool. In other words, the gold pool can be considered the product of the UK's desire to retain gold and the Federal Reserve and US Treasury's political calculation to take the reins in currency management and fiscal policies. The resulting gold pool consisted of a buying syndicate and selling syndicate, and

---

policy divergence over the acceptance of 'Keynesian' economic policies.

[177] This difference will be explored further in chapter 3 of this thesis, with focus on the political divergence between the UK and the US over the manipulation of long-term interest rates.

was inaugurated with a $270 million contribution from its members.[178] Concomitantly, members, including the Bank for International Settlements (BIS), reached the agreement not to purchase any gold in London above the price of the $35.20 per ounce shipping parity, with of course, exception applying to the Bank of England and Federal Reserve Bank (FRB). This protocol was called 'self-denying ordinance'. The Chancellor reported to the Prime Minister regarding the gold pool:

> …our earmarking would far exceed the likely expenditure of our contribution to the gold pool. Moreover, if at any time we thought it right to contract out of the gold pool scheme altogether, we could reverse our contribution entirely by means of further earmarking in New York.[179]

After the establishment of the gold pool, the Chancellor embarked on the increase of UK gold holdings through earmarking dollars in New York (Figure 2-2).[180] At a discussion with the US side, represented by Roosa and Martin, the decision over gold holdings was consigned to the UK, though the US urged consideration of the stability of the two reserve currencies, sterling and the dollar. The Chancellor notified Hayes of his approval for earmarking $250 million worth of gold for the succeeding six to eight weeks, and of retaining the right to earmark $200 million.

As seen above, to assuage the backlash of the US and to secure gold earmarking during these negotiations, the Chancellor suggested a contribution

---

178 The breakdown of the contribution was as follows: US ($135 million), Germany ($30 million), the UK ($25 million), Italy ($25 million), France ($25 million), Netherlands ($10 million), Belgium ($10 million), Switzerland ($10 million).
179 TNA, T312/312, Chancellor to the Prime Minister: Gold, 20 November 1961.
180 TNA, PREM11/4203, Chancellor to the Prime Minister, 9 November 1961.

from the UK of $25 million worth of gold to the gold pool. Behind this decision was the intention to retain gold rather than dollars. On the other side of Atlantic, the US Treasury and the Federal Reserve endeavoured to avoid Congressional interference in the field of foreign monetary policy, while maintaining the 'outer perimeter defences'.[181] While the UK side sought to hold gold, the Chancellor also sought to avoid excessively displaying the preference for bolstering the foreign reserves. At this stage, the Chancellor considered the fortuitous timing of the reduction in the Bank Rate as conducive to articulating unambiguously the intention not to absorb a dispensable amount of reserve.[182] Therefore, these multifaceted conflicts, that provoked political calculations amongst actors, were intrinsically within the co-operative schemes from the outset. The gold pool was established at the point that actors reached economic compromise, with not a long-term, but short-term, myopic political outlook. This entailed the creation of further co-operative measures: the Federal Reserve swap lines.

[181] TNA, PREM11/4203, Chancellor to the Prime Minister, 20 November 1961.
[182] TNA, PREM11/4203, Chancellor to the Prime Minister, 9 November 1961.

Figure 2-2: Composition of the UK Reserves (£ Millions)

	US Dollar	Other Currencies	Gold	Total	Gold as percentage of total
1961					
July	77	12	787	876	89.8%
August	371	134	740	1,245	59.4%
September	454	101	714	1,269	56.2%
October	463	89	709	1,261	56.2%
November	416	45	808	1,270	63.6%
December	337	39	810	1,185	68.4%
1962					
January	366	39	813	1,218	66.7%
February	374	15	834	1,223	68.2%
March	360	15	859	1,233	69.7%
April	324	6	910	1,240	73.4%

Source: PREM11/4203, From the Chancellor to the Prime Minister, 14 May 1962.

2.4 Gold, and establishment of the Federal Reserve swap lines

One month after the commencement of gold pool operations, the selling syndicate entered a period of abeyance, termed ‘cold storage’.[183] At this stage, the UK and the US were in dispute over the issue of ‘self-denying’, or central bank exclusion from the London gold market.[184] On 12 December 1961,

[183] BoEA, ADM/13/24, Discussions in Basle on Operations in London gold market, 20 December 1961.

[184] BoEA, ADM/13/4, Memorandum, Parsons to the Governor, 12 December

Coombs called for the extension of self-denying ordinance, as its termination 'would be difficult to explain to Congress'.[185] Parsons responded that London should remain open for central banks that wanted to purchase gold in Europe, conceding that any self-denying ordinance should only last one month.[186] It is clear from these communications that the London good pool was a major point of focus in both the US and UK political spheres. Furthermore, maintaining gold pool arrangements was a prerequisite for the Federal Reserve and US Treasury, who did not wish to provoke a backlash from Congress or prompt the extension of Congressional power into the international monetary field.

While the US desired the continuation of self-denying in gold operations, UK officials tried to keep the London gold market open for purchases by Basle central banks. Concerns were expressed that transactions that would benefit Basle central banks if conducted in London, would be pulled to New York. Thus, Parsons highlighted that it would be profitable for Basle central banks to sell gold in London, for example, earmarking at $35 and selling at $35.16. However, Parsons advised that he would be

> very reluctant to inject this thought into the discussions because it will immediately lead on to a suggestion by the Americans that if Basle Central Banks, having earmarked at $35, need to dispose of gold, they should do so by offering it to the New York Federal.[187]

In the face of pressure from the UK, which was concerned with market freedom in gold transactions, the US proposed removal of the 0.25 per cent commission

---

1961.

[185] Ibid.

[186] Ibid.

[187] BoEA, ADM13/5, Parsons to Cromer: The American Gold Scheme, 25 January 1962.

on both sales and purchases in New York by members of the syndicate.[188] With this proposed removal of the 0.25 per cent commission of 8 cents per ounce shipping cost, the US gold export point applied to member central banks would decrease from $35.20 to $35.08.[189] In the backdrop, it had been decided that Basle central banks should refrain from buying in London until the price fell under the parity.[190] The waiving of the commission charge on central banks would provide them with a lower price market. Through this scheme, the US aimed to reduce the gold held in private and reconcile the member central banks to their exclusion from the London gold market.

At this time, UK officials were keen to commit to the gold pool due to concerns that should the UK not participate, it would become excluded from international monetary co-ordination and possibly cause loss of initiative to forge schemes for the management of the currencies.[191] With respect to operation of the gold pool, the Bank, on behalf of the syndicate, would conduct buying operations and its purchases would be distributed according to the share of contributions.[192] For this reason, the 'two-price system' in London and New York for a limited number of central banks emerged, and 'self-denying,' with the exception of the Bank, continued.[193]

Thereafter, while the London gold market was in a temporary lull, the syndicate accumulated over $70 million worth of gold by May of 1962, and

[188] Ibid.
[189] At this stage, the estimated shipping point was $35.10, however, it was changed to $35.08 according to the recalculation of shipping costs.
[190] Ibid.
[191] BoEA, ADM13/5, Parsons to Cromer, 25 January 1962. Parsons was reluctant to oppose the removal of the commission charge. He was concerned that, if the UK should reject this proposal, the US would dispose of gold, and the Bank would be excluded from the rule.
[192] TNA, T312/312, Meeting at the US Treasury on Thursday, 4 January 1962.
[193] TNA, T312/312, Gold Talks in Basle, 6 and 7 January 1962.

purchases of gold accelerated due to the large sale by the Soviet Union.[194] Negotiation ensued as to the management of accumulated gold: whether it should be used for further sale, held in reserve, or distributed amongst the contributors. At this stage, accumulated gold was used for further sale.[195]

However, a sudden and unexpected financial upset occurred in May and June of 1962. The Canadian dollar was devalued in May, and in June conflict between Kennedy and the steel industry provoked a 'Flash Crash' of the US stock market. As a result, the buying syndicate suddenly lost gold holdings. On 20 July, under significant pressure from Washington, the Federal Reserve reactivated the selling syndicate, which had been in abeyance.[196] Following this reactivation, the pool sold for net $50 million worth of gold. Despite the unfolding of the Cuban Missile Crisis in October 1962, the large gold sale from the USSR saw through the successful suppression of the price of gold in London below the US gold shipping point of $35.20 per ounce.[197]

As seen above, concessions over the earmarking of gold were made, however, the UK's intransigent gold preference provoked further US opposition,

---

[194] Between 1963 and 1964, the Soviet Union suffered a poor harvest and faced the need to sell gold in order to import grain. This continued inflow of gold towards the London gold market satisfied the demand for gold and caused a decrease in its price. See Meltzer, *A History of the Federal Reserve, Vol.2*, p.360.

[195] TNA, T312/949, The Gold Consortium, 24 December 1962. However, the gold pool was frozen until 20 July. Roosa argued that the principle of distribution would depend on the share of contribution and the future fluctuation of shares in the pool.

[196] TNA, T312/949, Note of a telephone conversation between the governors and Hayes, 26 July 1962, and Cable: Hayes to Cromer, received on 9 August 1962.

[197] IMF, *Annual Report*, 1964, pp.131-2, and IMF, *Annual Report*, 1965, pp.100-1. See also Bordo, Humpage and Schwartz, *Strained Relations,* pp.178-81. While the London gold price was effectively controlled by the gold pool, speculative movement of sterling surged and the Bank decided to increase the Bank Rate from 5 per cent to 7 per cent on 23 November 1963.

including from President Kennedy, in early 1962.[198] In February, Roosa made the assumption that Britain should hold dollars since the US had lost $150 million worth of gold early the same year due to accumulation of gold by the UK.[199] The US singled out the UK's drawing of dollars from the IMF and its conversion to gold as the cause behind the drain on US gold.[200] The US demanded the UK interpret the 'July undertaking', which was to refrain from the purchase of gold with the Fund Drawing, as 'to hold in currencies the whole of our outstanding liability to the Fund plus a notional working balance of $200 m'.[201] With the then foreign reserves position, this meant that the UK could hold the earmark for just $100 million. Treasury Joint Permanent Secretary, Sir Frank Lee and the Chancellor urged Prime Minister Macmillan to accept the US proposal, as the US had made this concession regarding earmarking.[202] The dispute over the gold reserves continued.

From early 1962, the US pursued extension of its 'outer perimeter defences'. In March, the Federal Reserve established a swap line, the beginning of the so-called Federal Reserve swap lines, with the Bank of France, and sold $50 million at the spot rate to the Bank of France against the French franc on a three-month swap basis. Coombs explained that the main aim of this arrangement was to bolster the dollar through sale of franc, in conjunction with securing the French holding of $50 million additional dollars in its reserves until the swap matured.[203] Coombs termed this arrangement a 'symbolic transaction',

---

[198] TNA, PREM11/4203, Washington to Foreign Office, 19 February 1962. The US President warned the British foreign exchange policy 'put a most unwelcome and uncomfortable strain upon the dollar'.
[199] TNA, PREM11/4203, Washington to Foreign Office, 20 February 1962.
[200] TNA, PREM11/4203, Washington to Foreign Office, 21 February 1962.
[201] Ibid.
[202] TNA, PREM11/4203, Earmarking of Gold, 13 March 1962 and 14 March 1962.
[203] TNA, T312/201, Basle, 10-12 March 1962, 14 March 1962.

and proposed extension of this swap web to the UK, at $100 million.[204] Parsons stated that the 'only real risk in the foreseeable future was a rise in gold price', and this swap line, sale of sterling and purchase of dollars, would not protect UK economic interests.[205] Therefore, Parsons expressed his unwillingness to accept this swap arrangement, and Coombs attempted to find an acceptable common ground for both parties.[206]

Here, conflict existed between the management of sterling and the swap arrangement. Rickett pointed out the danger of a situation in which the UK were to hold a vast amount of dollars. He asserted, 'could it not be said that these facilities would mean that both sides were giving up the possibility of acquiring gold when they were in surplus', and would also mean the Federal Reserve would hold $100 million worth of sterling not for exchange to gold, but to dollars.[207] Rickett recognised this arrangement as the sale of gold to the US and restoration of the UK dollar balance. He pointed out that this would result in the UK being forced to hold $300 million as a minimum working balance, even if the Fund Drawing were repaid. Therefore, in the eyes of the Bank of England and UK Treasury, the swap arrangement was akin to forcing the UK to hold dollars without gold collateral. Despite this deep-seated concern expressed by the Bank and Treasury, on 27 March, the Chancellor authorised the Bank to join the swap arrangement under 'suitable terms and conditions'.[208]

Behind this decision, concerns were held on the UK side surrounding the danger of inhibiting gold accumulation, and harming relationships between the

[204] Ibid.
[205] Ibid.
[206] Ibid.
[207] TNA, T312/201, Proposal for a Sterling/Dollar Swap, 19 March 1962, and Proposal for a Sterling/Dollar Swap, 23 March 1962.
[208] TNA, T312/201, Sir Denis Rickett to Sir John Stevens, 30 March 1962.

Treasuries and central banks by rejecting the swap proposal, risking potential exclusion from the international monetary community. Conversely, anticipation of the possible benefit that the UK could use this scheme to enhance its foreign reserves position was perceived as an advantageous aspect.[209] In these circumstances of concern and anticipation, the US made a revised proposal of a $50 million swap line as a 'pilot operation' which was analogous to a trial run of the gold sales scheme, and additional $250 million swap facilities were proposed following this trial. Roy Bridge, of the Bank, analysed the development of the US policies as 'exchange conscious'.[210]

Meanwhile, Coombs purported that the swap arrangement was 'for the sake of uniformity in pattern for presentation to Congress'.[211] It should be noted that, while a vote in Congress was necessary to enlarge the Exchange Stabilization Fund, the Federal Reserve swap lines were operated at the discretion of the Federal Reserve under the influence of the US Treasury, while the Bank of England had a significant role along with the Federal Reserve in the operation of the gold pool. There is no doubt that Federal Reserve intervention encompassed intentions to circumvent the arduous democratic process.[212] This is congruent to the analysis of Bordo, Humpage and Schwartz: the Federal Open Market Committee (FOMC) members saw the Federal Reserve swap lines as a scheme that was designed to 'bypass the Congressional appropriations process and, therefore, represent an abuse of the Fed's off-budget status'.[213] Although the US Treasury was essentially controlled by

---

[209] Ibid.

[210] BoEA, OV31/125, American exchange operations with European central banks, 9 March 1962.

[211] Ibid.

[212] TNA, T312/201, Derek Mitchell to Carey, Proposed Sterling/Dollar Swap Operation, 13 April 1962.

[213] For the concern of the members of the Federal Open Market Committee

Congress, the discretion of the Treasury, which conducted international monetary co-ordination through this swap scheme with the Federal Reserve, was *ipso facto* reinforced within the international monetary field.

The UK side discussed three points that required consideration for the swap scheme.[214] The first was the setting of interest rates which would result in uneven costs borne by the Bank of England and Federal Reserve. The US demanded use of a flat interest rate based on the US Treasury bill, or 2 per cent. This scheme entailed that the US would be able to obtain funds at a subsidised rate. Rather than suggest a proposal equally favourable to the UK, the Bank compromised to accept the flat 2 per cent rate. Secondly, UK officials were aware of the potential for detrimental effects on the UK reserves from the use of the swap facility at unpropitious timings. The UK sought a consolidated term of swap facility, three months, with fresh negotiation necessary for its renewal. Thirdly, the UK side fixated on the right of earmarking and demanded a gold value guarantee: it was held that earmarking and drawing on swaps should be separate in order not to offset swap withdrawal with earmarked gold. Although the risk of the revaluation of gold could not be ignored, the UK agreed to accept the swap line of up to $300 million 'in the interest of fostering mutual co-

---

(FOMC) on Congressional influence on the Fed's 'off-budget status', see Michael D. Bordo, Owen F. Humpage, and Anna J. Schwartz, 'The Evolution of the Federal Reserve Swap Lines since 1962', *NBER Working Paper Series*, No.20755, December 2014. This research covers the Federal Reserve Swap Lines and the ESF, and revealed the institutional power balance over international monetary policies amongst Congress, the Treasury and the Federal Reserve.
Bordo, Humpage and Schwartz,'The Evolution of the Federal Reserve Swap Lines since 1962', pp.25-6. This outlined the case whereby the US Treasury and the Federal Reserve forcibly conducted a monetary rescue operation through the Federal Reserve swap lines although Congress had rejected this plan during the Mexican Peso crisis between 1994 and 1995.
[214] TNA, T312/201, Proposed Sterling/Dollar Swap Operation, 1 May 1962.

operation in the management of the international monetary system'.[215] Despite these negotiations, the concessions that the UK secured were that fresh negotiations would occur prior to the renewal of swap facilities and that interest rates would be set in an *ad hoc* manner, to start at the US's preferred rate of 2 per cent.[216]

On 9 May 1962, Prime Minister Macmillan questioned the Chancellor regarding the dollar holdings position, and ordered that the UK 'must not be caught with dollars when we might have gold'.[217] A week later, the Chancellor reported the swap arrangement proposals, one of which was a $50 million actual swap transaction as a pilot operation, the other another $250 million further swap transaction.[218] The Chancellor expressed readiness to accept the first proposal, which was conveyed to the US side the same day. However, he advised the Prime Minister not to accept the second requirement until substantial repayment to the IMF was made.[219] As a result of this discussion, the Prime Minister took to the Chancellor's line on this.[220] Thus, the swap arrangement between the UK and US was set on 31 May. Subsequently, Federal Reserve swap lines expanded from $800 million with 100 million Swiss

---

[215] Ibid.

[216] TNA, T312/201, Minutes of a meeting held at the Treasury on Monday 7 May 1962.

[217] TNA, PREM11/3764, Prime Minister's Personal Minute to the Chancellor, 9 May 1962.

[218] TNA, T312/201, The Chancellor's minute to the Prime Minister, 14 May 1962.

[219] Ibid.

On 14 May, it was reported that Dillon stated that 'the swap arrangements had been made with the French and the Italians and so far as an arrangement with the United Kingdom was concerned the United States was mainly interested in developing the necessary mechanism through a pilot operation of $50 million', in T312/202, Anglo-American Discussions, Note of a meeting held at the Treasury on Monday 14 May 1962.

[220] TNA, PREM11/3764, Bligh to Hubback, 16 May 1962.

francs in 1962 (Figure 2-3), to $11.7 billion, and 14 central banks joined the scheme at the closure of gold window in August 1971.[221]

Figure 2-3: Federal Reserve Swap Arrangement 1962

Other Party to agreement	Amount in $ Millions	Date of Original Agreement	Term
Bank of France	50	4-Mar	3 months
Bank of England	50	30-Mar	3 months
Netherlands Bank	50	14-Jun	3 months
National Bank of Belgium	50	20-Jun	6 months
Bank of Canada	250	26-Jun	3 months
Bank for International Settlements	100	16-Jul	3 months
Swiss National Bank	100	16-Jul	3 months
German Federal Bank	50	2-Aug	3 months
Bank of Italy	50	18-Oct	3 months
Austrian National Bank	50	25-Oct	3 months

Source: Federal Reserve Bank of New York, Monthly Review March 1963, p.39.
Note: Bank for International Settlements data is denominated in Swiss franc.

As elucidated above, the UK had a remarkable preference for gold, and there is no doubt that this provided the impetus for challenge against the US demand on it to hold dollars. The Prime Minister clarified the rationale behind preference for gold to the Chancellor, in a remark which summarises the UK's tactics and objectives over international monetary arrangements, and its scepticism towards the US:

221 Bordo, Humpage and Schwartz,'The Evolution of the Federal Reserve Swap Lines since 1962', p.4.

> In the early months of 1961, I got into disgrace with you and the Treasury for telling the new American Administration that the easiest way to enlarge the credit base and get us out of our difficulties of trying to finance more and more production and trade with insufficient money was to raise the price of gold […] So the City is buying gold shares because they know that the Almighty Dollar must yield in turn to world forces. They also suspect that President Kennedy has some of the Roosevelt power of rapid, ruthless action, without consultation and without divulging his purpose (and that is how his father made so many millions). So please be more and more careful - especially of Dillon (who is used as the simple boy in the three card trick). I know you have got a lot of gold. But it would perhaps be worth while selling all the dollars you have in order to pay back the Bank (which is a gold loan). […] Finally, in spite of Keynes and all the chatter of modern economists, remember that we are all on a gold standard in effect, although the old way of operating it has been changed. Meanwhile, watch and pray – and sell dollars.[222]

From this, it is beyond doubt that the UK side, including the Prime Minister and the Treasury as shown above, strengthened its preference to accumulate gold with the prospect of devaluation or depreciation of the dollar in mind, and that the Prime Minister remained sceptical of the US Treasury and Kennedy, who had relentlessly demanded the UK hold more dollars and less gold, and to broaden the international monetary scheme.

Despite the above communication from the Prime Minister, the Chancellor responded that sudden large repayment in dollars to the IMF would be interpreted as the UK's prediction of the devaluation of the dollar, and would therefore have a detrimental effect on the relationship between the UK and US.[223] The Chancellor also asserted that a weak dollar would have a harmful effect on sterling. His conclusion was that the UK faced two risks: one was the

[222] TNA, PREM11/4203, Prime Minister to the Chancellor: The Almighty Dollar, 22 May 1962. Regarding the divergence in views on the price of gold between the Prime Minister and the Chancellor, see also TNA, PREM11/3302, Gold Exchange Standard: A danger to the West, 7 July 1962, also TNA, PREM11/3302, Bligh to Hubback, 9 July 1962.
[223] TNA, PREM11/4203, Chancellor to the Prime Minister: The Almighty Dollar, 1 June 1962.

exchange risk and the other was the management of its own reserves. The Chancellor emphasised that he would not act to provoke ‘exchange risk arising from our gold liability’.[224] Moreover, the Chancellor elucidated that if devaluation of the dollar or fluctuation in the gold price were to occur, it would inflame the strain on the sterling area through the decrease of the sterling balance value denominated in gold.[225] This would result in provocation of demands for compensation. For this reason, the Chancellor advocated defence of the dollar.[226] It is clear that the UK was not a monolith unreceptive to change. The Prime Minister’s defiant stance against the US was mediated by the Treasury, the Chancellor and the Bank, but his preference for gold remained, resulting in a compromised co-operative scheme with the US: the gold pool and swap arrangement.[227]

2.5 Conclusion

In delineating the formation process of the gold pool and Federal Reserve swap lines, this chapter has revealed that both schemes, which emerged paradoxically under the premise of promulgating international monetary co-operation, burgeoned within divergent and conflictive Anglo-American interests, arising from multifaceted internal political and economic interests.

---

[224] Ibid.
[225] TNA, PREM11/4203, Chancellor to the Prime Minister: The International Situation and the Price of Gold, 4 July 1962.
[226] Ibid.
[227] The fissure between the Prime Minister and the Chancellor widened, escalating to a critical level whilst the Prime Minister sought a scheme to reduce long-term interest rates in 1963. See chapter 3 of this thesis.

The UK side was dubious of the prestigious position of the dollar and was concerned with its possible devaluation. With a modest level of ambition for reinstatement of sterling's position, the UK Treasury and the Bank of England sought to accrue gold rather than dollars as a means of managing sterling and the foreign reserves. On the other side of the Atlantic, the US Treasury and the Federal Reserve were confronted with mounting pressure to manipulate the London gold price in the immediate wake of the Berlin Crisis in the summer of 1961. This resulted in the gold pool and Federal Reserve swap lines proposal as a corollary, which graphically animated the collision in economic interests between the US and UK.

Although the UK was disinclined to accept the US proposal to hold dollars, backed by the Prime Minister's intransigent gold preference and wary scepticism of the US, mediation by the UK Treasury and the Bank saw through the establishment of the gold pool and Federal Reserve swap lines. Behind the creation of the gold pool lay concessions in the earmarking of $450 million worth of gold to the UK in exchange for joining the scheme. Meanwhile, the UK Treasury and the Bank sought to take the initiative of the gradual establishment of international monetary schemes, particularly concerning the London gold market, and feared exclusion from these schemes if the UK neglected to participate. On the other hand, the US side, including the Treasury and Federal Reserve, sought to deflect the surge of Congressional interference in their international monetary policy by central bank co-operation as a *fait accompli*. This motivation of the US monetary authorities drove them to rush into the forging of alternative international monetary schemes. Therefore, the gold pool, one of the prominent co-operative monetary schemes of the period, emerged paradoxically from conflict in the arena in which the US and the UK pursued their own interests. To be more precise, it can be argued that the gold pool was the product of economic compromise, or economic rationality of UK and US monetary authorities both in pursuit of their own economic and political interests. On one side, the UK sought to accumulate gold, potentially risking a backlash from the US. On the other side, US monetary authorities sought to ameliorate the decline in the dollar, to mitigate Congressional pressure, and to self-enhance their political influence through the international monetary field. This complicated structure of interests led both governments to explore solutions in the international monetary arena and resulted in the gold pool. It has also been shown that both compromise and the incentive of the seductive prerogative to hold the reins of international monetary reform were factors that contributed to the formation of the gold pool.

It should also be emphasised that the difference in political institutional configuration limited the policy outcomes and paths of the US and the UK. In the US, the President could maximise and utilise the influence of CEA economists and their ideas as a bulwark against the US Treasury and Federal Reserve, and for ushering towards his favoured policies. This political structure, associated with the influence of Congress, provided the impetus for the US Treasury and Federal Reserve to create external, international institutions, in this case the gold pool and Federal Reserve swap lines, as a political economic channel through which to inject their influence into the political arena, bypassing domestic political obstacles.

The negotiation for the Federal Reserve swap lines differed in quality. This scheme did not meet the UK's preference for gold and amount of dollar holdings, and in terms of interest rates, this scheme was considered to be more beneficial for the US than for the UK. However, given that the swap lines between the US and France had already been established, bargaining power escaped the UK. The UK was aware of the potential impact if it opted out of the Federal Reserve swap lines and the possibility of deterioration of its relationship with the US if the UK neglected to support it, while remaining hopeful of future enhancement of its foreign reserves position. Therein lies the historical process, obscured by the rhetoric of co-operation in order to defend the international monetary system.

The above perspective provides a different view to that presented in the disciplines of international relations and economics, which have focused on the dichotomy of co-operation or conflict, or the benefits of membership, known as feedback of positive network externality, where participants were locked-in to co-operative schemes. In stark contrast to this, this chapter has described how the gold pool was the product of compromise mainly between the UK's economic rational choice and the *political* economic rational choice of the US. This compromise arose from institutional configuration, international and internal political conflicts, policy preferences or ambitions, and ideas over the management of currencies, which were somewhat restricted by the international monetary system, and speculative political and economic calculations due to uncertainties in the effects of the co-operative monetary schemes.

Meanwhile, the swap lines arrangement was accepted by the UK amidst fear of exclusion from the scheme and ensuing loss of opportunity, although some aspects of the UK's demands were reflected in this scheme. Then, the formation process and outcomes of these international co-operative currency management schemes provided a supranational domain, channel and battleground, through which members formed ideas, extracted political power against foreign and internal policy contestants, and competed to seize initiative for, and foster prestige of, their own currencies. From a historical perspective, it is important to point out that these two schemes significantly expanded the presence of the Bank of England, US Treasury and Federal Reserve against the power and governability of the UK Parliament and the US Congress. The Bank successfully gained and intensified its own discretional right and power to intervene in and control the London gold market, which was considered 'risk-free intervention'.[228] The Federal Reserve obtained the independence in the international monetary field to operate various measures with other central banks without interference from Congress. Furthermore, the US Treasury, theoretically subject to Congressional authority and Federal Law regulations, accessed the legal loophole to exert its influence on the international monetary field through the Federal Reserve system.

[228] Coombs, *The Arena of International Finance*, p.56.

Chapter 3: Manipulation of the structure of interest rates from 1962-64: How the British government discarded 'Operation Twist'

3.1 Introduction

In the context of historical institutional factors and the development of ideas in politics, this chapter explores how, from 1961 to 1964, the UK came to pursue watered-down manipulation of long-term interest rates.

The outflow of gold from the US in 1959 led to the development of counter-measures in order to avert the dissolution of the international monetary system, which was anchored by the US dollar. Under President Kennedy's administration, the US pursued tax reform, reduction in government expenditure and mobilisation of monetary policy.[229] One of the innovative monetary schemes, known as 'Operation Twist', aimed to encourage business investment through reduction of long-term interest rates. Operation Twist also aimed to avoid creation of inflationary pressure, and to attract short-term funds from overseas with the increase in short-term interest rates.[230] Therefore the US intended to break its economic *aporia* of expansion of the domestic economy

---

[229] BoEA, OV31/76, The Economic Situation and the Balance of Payments: A Special Report to President-elect Kennedy by Allan Sproul, Chairman, Roy Blough, and Paul W. McCracken, 18 January 1961. See also Roosa, *The Dollar and World Liquidity*, Appendix II, pp.271-99.
This report covered a broad range of topics. See Chapter 2 of this thesis.
[230] John H. Wood, *A History of Central Banking in Great Britain and the United States* (Cambridge: Cambridge University Press, 2005), p.257.

and defence of the dollar, through the theoretical effects of an eclectic debt management scheme without slowing down its economy or deteriorating confidence in the dollar.

On the other side of the Atlantic, the UK grappled with a similar dilemma: to enhance sterling and the foreign reserves position, and encourage export to mitigate the balance of payments deficit. In order to tackle these matters, the Prime Minister, Harold Macmillan, and his government considered short-term interest rates manipulation and long-term interest rates reduction.[231] Evidently, UK debt management and the manipulation of the structure of interest rates were inextricably connected to currency management. However, whilst the US was able to introduce Operation Twist, in the UK, control of long-term interest rates largely escaped the government in the process of policy formation. In a divergence of policies, in the early 1960s, the US embarked on controlling long-term interest rates while the UK relied on the manipulation of short-term interest rates, such as the Bank Rate.

This chapter explores how the UK came to pursue a watered-down manipulation of long-term interest rates and had to concentrate its efforts on short-term interest rates policy. Capie has described the argument within the Bank over long-term interest rates in great detail. However, exploration in the context of the management of currency, including the involvement of the government and the Treasury, is lacking.[232] Furthermore, existing research has neglected direct governmental arrangement of the structure of interest rates. Given this lack of comprehensive research of UK interest rates policies, this chapter focuses on the political process, particularly concerning the UK long-

[231] Peter Catterall, *The Macmillan Diaries Vol. II: Prime Minister and After, 1957-66* (Basingstoke: Macmillan, 2011).
[232] Capie, *The Bank of England,* pp.282-6.

term interest rates between 1961 and 1964. To provide effective analysis of this, it is paramount to consider the political process in the context of the economic background and economic theoretical aspects. In order to deepen understanding of how divergence in interest rates policy between the US and UK occurred, and how the UK failed to implement mobilisation of long-term interest rates, prior to analysing the historical process, the two succeeding sections of this chapter will delineate economic theoretical development and provide a brief economic background of this period.

3.2 The development of monetary theory

Operation Twist is considered a product of debt management policy. Given that in the 1960s 'Keynesian' economics increasingly gained influence in the arena of fiscal and monetary policy, debt management policy, which had previously aimed to minimise the cost of issue, refinance and redemption of government bonds, transformed to subsume economic stimulating measures.[233] This morphological change is known as the shift from pro-cyclical or neutral debt management, keeping debt borrowing and debt service costs low, to counter-cyclical debt management policy and economic fine-tuning.

[233] The Bank officially detailed the chief aims of its debt management policies and operations. The Bank identified its objectives as: to strengthen demand for the stock of gilt-edged securities; to widen the gilt-edged security market for various investors so as to secure the long-term holding of government debts; and to keep down the costs of government borrowing. See Bank of England, *The Development and Operation of Monetary Policy 1960-1983* (Oxford: Oxford University Press, 1984), pp.79-80. For the incrementally growing influence of Keynesian economics and its ideas during this period, see Stein, *The Fiscal Revolution in America*, chapters 15 and 16. See also Sorensen, *Kennedy*, and Schlesinger, *A Thousand Days*.

Pro-cyclical debt management policy refers to efforts to minimise issue or debt service costs, according to market interest rates. Typically in this debt management policy, Treasury departments have a propensity to issue bonds and lengthen the structure of debt maturities during periods of low interest rates. Central banks would then support the Treasury through open market operations. On the other hand, counter-cyclical debt management, including in the context of currency management, requires co-operation and collaboration between Treasuries and central monetary authorities in order to conduct economic fine-tuning, which, in the context of the 1960s, was to achieve 'full employment' or the non-accelerating inflation rate of unemployment (NAIRU), and hampering short-term capital outflow. For example, when lower long-term interest rates for the promotion of business investment and higher short-term interest rates in order to check capital outflow were sought, the Treasury tended to issue more short-term debts. In conjunction, central banks lower long-term interest rates through repurchasing bonds. On the other hand, in periods of economic boom, Treasuries issue debt to absorb excess funds from the market, and central monetary authorities seek to increase interest rates.

One quintessential means of counter-cyclical debt management can be considered to have manifested as Operation Twist. As turbulence surrounding confidence in the dollar became apparent, from the late 1950s, the UK and US faced new difficulties in short-term capital outflow and encountered the necessity to expand economic activity. This situation led central monetary authorities and Treasuries to conduct co-ordination over debt management policy seamlessly adjusted to the business cycle and management of currencies. This US counter-cyclical debt management was chiefly advanced by the theory of economist James Tobin, who was also a member of the CEA between 1961 and 1962. On the other side of Atlantic, in the UK the Committee on the Working of the Monetary System, dubbed the Radcliffe Committee, evaluated a somewhat similar theoretical aspect to that presented by Tobin: the interest incentive effect and general liquidity effect. Although both the US and UK sides were significantly influenced by the original work of Keynes and had similar arguments in the development of debt management theory, the resulting policies were divergent. Therefore, this section considers the theoretical development from Keynes to Tobin, especially focusing on two theoretically significant factors: uncertainty and provision of money. This section will then attempt to clarify the shared theoretical arguments of Tobin and the Radcliffe Committee.

The Radcliffe Committee published a guideline in 1959 for the direction of the financial system and fiscal monetary policy after a two year research period on monetary policies, gathering academic attention. This Committee sought extension of the role and means of the Bank beyond the lender of last-resort.[234] This report placed less emphasis on monetary policies as effective economic measures, rather suggesting that monetary policy could be mobilised in order to influence aggregate demand through, at least partially, the interest incentive effect and general liquidity effect.[235] This theoretical mechanism sees change in

---

[234] Committee on the Working of the Monetary System; Her Majesty's Stationery Office, (hereafter, HMSO), Cmnd., 827, 1959, (hereafter, Radcliffe Committee, 'Report'). Sayers identified central banks as a source of liquidity known as the lender of last-resort during financial crises, see Richard S. Sayers, *Modern Banking, Seventh Edition* (Oxford: Clarendon Press, 1967), originally published 1938. Regarding the role of a lender of last resort, it is widely known that the work of Bagehot influenced the account of Sayers, see Walter Bagehot, *Lombard Street: A Description of the Money Market* (Connecticut: Hyperion Press, 1964), originally published 1873.

[235] To what extent the Radcliffe report placed emphasis on the interest incentive effect or general liquidity effect is unclear. For an account on the incentive effect of the structure of interest rates on the overall liquidity position, see Nicholas Kaldor, 'The Radcliffe Report', *The Review of Economics and Statistics,* Vol.42,

interest rates influencing the value of various securities, which provokes restructuring in the portfolios of financial institutions, through changing the liquidity level of such institutions facing uncertainty. This affects the credit availability of financial institutions and ought to influence the condition of the credit market and eventually the goods market. The Radcliffe Committee can be interpreted as a trial to advance and incorporate the liquidity preference theory derived from Keynesian economics into the complex mechanism of interest rates and liquidity preference with portfolio choice and credit availability.[236] However, there is controversy amongst the original works of Keynes, the Radcliffe Committee, and Tobin's portfolio rebalancing theory, which provided the theoretical basis for justification of US debt management policies (such as Operation Twist). The development of controversies that will be examined here are the concepts of uncertainty and endogenous money supply.

No.1, February 1960, p.15, paragraph 4.

[236] For the arguments of liquidity preference theory, see John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (London: Macmillan, 1967), originally published 1936, chapters 13-15. It should be noted that the uncertainty in *The General Theory* was dealt mainly within portfolio choice, and its concept varied within the works of Keynes.

There is a sceptical view on how much the UK government applied Keynesian economics to policies. See Roger Middleton, *Government versus the Market: The Growth of the Public Sector, Economic Management and British Economic Performance, c.1890-1979* (Cheltenham: Edward Elgar, 1996), p.532. In the argument of Middleton, since the post-World War II economy necessitated production of unemployment to manage unstable international currencies, there is a view questioning the occurrence of a Keynesian revolution. For detailed consideration of this matter, see chapter 6 of this thesis.

In addition, it has been pointed out that the means of accommodating Keynesian economics in the UK and US were divergent. See Weir, 'Ideas and Politics', pp.53-86. Weir has emphasised that the infiltration of Keynesian economics depended on the extent to which the configuration of political institutions, such as the influence and openness of the Treasury department, oriented the theory. On the other hand, Hall explained that 'the permeability of the civil service', 'the degree to which power over macroeconomic management was concentrated' and 'the power of central banks over policy making' were decisive components adding to the influence of economists and politicians, see Peter A. Hall, 'Conclusion: The Politics of Keynesian Ideas', in Hall, *The Political Power of Economic Ideas*, p.378.

Firstly, consideration must be made of how to apply the practical feature apparent within the market, known as 'uncertainty', to the monetary theory. Hicks, known for the IS-LM model, discarded the original meaning of uncertainty described in Keynes' work, which can be interpreted as the anthropological or psychological human instinct.[237] This simplified understanding of uncertainty inherited by 'Keynesian' or new-Keynesian economics presented a contrast to the Austrian School, post-Keynesian School and institutional economics. These latter groups can be considered to have attempted to incorporate more realistic and incalculable uncertainty into their theoretical frameworks.[238] Meanwhile, others, in particular US new-Keynesian economists, abandoned the original interpretation of uncertainty, adjusting it into a predictable form as calculable risk or expected returns, sharing a common foundation with neoclassical economic assumptions.[239] Therefore, one of the significant differences between

---

[237] John R. Hicks, 'Mr. Keynes and the "Classics"; A Suggested Interpretation', *Econometrica*, Vol.5, No.2, April 1937, pp.147-59. For a critique on the theorem connected to the neoclassical economic assumption of Keynesian economics, as by Hicks, see Hodgson, *Economics and Institutions*. See also chapter 6 of this thesis.

[238] For an account on the Austrian School, which emphasised psychological effects within investment motives, see Gottfried Haberler, *Prosperity and Depression: A Theoretical Analysis of Cyclical Movements*, *Third Edition* (New York: United Nations, 1946), originally published 1937, chapters 3 and 6. It should be noted that even if uncertainty were removed from the market or theoretical premise, the rationality of individuals would become problematic. For limited individual rationality, see Friedrich A. Hayek, *Individualism and Economic Order* (Chicago: The University of Chicago Press, 1948), chapters 1 and 4. Hayek's concept of the limited rationality of humans was also seen in his argument on free banking, spontaneous order and anti-constructive rationalism. See Friedrich A. Hayek, *Denationalisation of Money - The Argument Refined: An Analysis of the Theory and Practice of Concurrent Currencies, Third Edition* (London: The Institute of Economic Affairs, 1990), originally published 1976, and Friedrich A. Hayek, *The Sensory Order: An Inquiry into the Foundations of Theoretical Psychology* (Chicago: The University of Chicago Press, 1952).

[239] Over time, various theories emerged which were founded in theoretical reductionism and rational individuals, taking a dominant position in economics. For an influential paper of the period advancing the theories of rational expectations, see Robert E. Lucas Jr., 'Expectations and the Neutrality of Money,' *Journal of Economic Theory,* Vol.4, No.2, 1972, pp.103-24. For

the original work of Keynes and Keynesian economics applied to monetary policy was uncertainty. This change created a path to subsequent development of monetary and debt management policies, such as those connected to Tobin's theories, which applied modified concepts of uncertainty.

Secondly, there existed dispute over whether money is supplied exogenously by monetary authorities or endogenously created in the banking structure. The Radcliffe Committee placed little emphasis on the role of money velocity and money supply. This is broadly recognised as the central work of Milton Friedman, who advanced Fisher's equation of exchange, MV=PT.[240] Friedman argued that velocity (V) and the volume of transactions (T) remain historically and empirically stable, at least for the short term, so that price level (P) would be derived from money supply (M). The Radcliffe Committee denied the hypothesis of stable money velocity. Just as Keynes had suggested the fluctuation of Marshal's k (1/V), the Radcliffe Committee showed its reluctance to accept the quantity theory of money. Therefore, the Radcliffe Committee had somewhat of a role in the succeeding development of endogenous money supply theory.[241] This endogenous money supply theory presented a contradiction to then-nascent exogenous monetary theory advanced by Friedman, which was a revival of the contention between the banking school

---

information asymmetry, see G. A. Akerlof, *An Economic Theorist's Book of Tales* (Cambridge: Cambridge University Press, 1984).

[240] Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), and Milton Friedman and Anna Schwartz, *A monetary History of the United States 1867-1960* (Princeton: Princeton University Press, 1963).

[241] Nicholas Kaldor, 'The New Monetarism', *Lloyds Bank Review*, July 1970, pp.1-18, and Nicholas Kaldor, *The Scourge of Monetarism, Second Edition* (Oxford: Oxford University Press, 1986), originally published 1982. Endogenous money supply theory emphasises that the level of circulated money or liquidity cannot be set by the monetary authorities, but is determined within the process of credit creation by the banking structure.

and currency school in the nineteenth century.[242] This controversy repeated historically and eventually re-emerged in Nicholas Kaldor's critique on monetarism in the 1970s, and it's rebuttal from 'post Keynesian economics', such as in Hyman Minsky's financial instability hypothesis.[243]

Overlapping with the Radcliffe Committee's suggestions, and overcoming the controversy over uncertainty and money supply, economist James Tobin advanced his academic monetary and debt management theory. Tobin's theory first divides the market into money, bond and capital markets, then insists that the cost of a variety of assets consists of interest rates, asset yield and credit availability. These factors play a decisive role in reaching a new equilibrium. If central banks provide additional credit, resulting in the increase in free reserves of the banking industry, they then create additional money stock through the chain of increase in the amount of lending.[244] This created money would increase debt prices accompanied by reduction in its interest yield, eventually fostering stock market investment. This translates into the reduction in the yield

---

[242] For critique on the currency school during the Bullionist Controversy, see Thomas Tooke, *An Inquiry into the Currency Principle: The Connection of the Currency with the Prices, and the Expediency of a Separation of Issue from Banking* (London: Longman, 1844). For exploration of the argument of Tooke, see Matthew Smith, 'Thomas Tooke on the Bullionist controversies', *The European Journal of the History of Economic Thought*, Vol.15, No.1, 2008, pp.49-84. For the background of the dispute over the Bank Charter Act 1844, see Walter Bagehot, *Lombard Street: A Description of the Money Market* (Connecticut: Hyperion Press, 1964), originally published 1873.

[243] Kaldor, *The Scourge of Monetarism.* Hyman P. Minsky, *John Maynard Keynes* (New York: Columbia University Press, 1975). Hyman P. Minsky, *Can "It" Happen Again? Essays on Instability and Finance* (New York: M. E. Sharpe, Inc., 1982). One of Minsky's notable contributions to monetary theory is that uncertainties and non-perfect humans who cannot predict future events present determinant factors of investment and causal factors of volatile markets. These incalculable uncertainties share a common foundation with the theory of Frank Knight, who combined incalculable risk with market profits. Frank H. Knight, *Risk, Uncertainty and Profit* (Chicago: University of Chicago Press, 1921).

[244] This explanation of Tobin's transmission mechanism of debt management policies is owing to the work of Keiji. Keiji Ida, *Kokusai Kanri no Keizaigaku* (Tokyo: Shinhyoron Publishing Inc., 1978), pp.192-4.

on shares, provoking investment demand. As interest rates change, financial institutions, that may take risks or precautions, choose optimal portfolios according to their liquidity preference, known as the ‘rebalancing portfolio effect’, and this decision changes credit availability for non-financial institutions. In the context of the US in the 1960s, Operation Twist shortened the maturity structure of government debt and increased outstanding balances of short-term debt. This short-term debt is more compatible with money (ultimate liquidity) than long-term bonds, therefore, it can increase free reserves of banks, which can be used for lending. Thus, in this theory, monetary authorities and Treasuries influence the goods market through change in interest rates of debt and the liquidity preference in financial markets.[245] In this sense, Tobin’s theory contributed to or enhanced the notion that debt management policy could be mobilised and controlled for managing the economy.

One of the major differences between Tobin’s theory and post-Keynesian or Keynes’ original economics is how uncertainty is dealt with in the theories. Tobin’s uncertainty refers to the macrocosm of safe and risky assets, with investors able to calculate the probability of the distribution of future risk and build a preferable portfolio. Therefore, Tobin’s uncertainty can be considered as calculable, whereas post-Keynesian uncertainty is applied in a broader sense and is the driving force behind financial instability. In addition, it should be noted that Tobin emphasised the money creation process within banking organisations in his theory, as opposed to the monetarist approach.

---

[245] For an explanation of portfolio rebalancing theories, see James Tobin, ‘A general equilibrium approach to monetary theory’, *Journal of Money, Credit and Banking*, Vol.1, No.1, pp.15-29. Regarding Tobin’s debt management theory, see James Tobin, ‘An Essay on the Principles of Debt Management’, in James Tobin, *Essays in Economics Volume 1: Macroeconomics* (Oxford: North-Holland, 1971), pp.378-455, chapter 21.

Tobin's theory, however, gradually decreased in explanatory power in the wake of the monetarist theory that money supply plays a decisive role in the credit availability of the market.[246] In the current context, empirical inconsistency is observed during periods of unconventional monetary easing, such as the quantitative easing succeeding the Great Financial Crisis.[247]

Returning to the context of the 1960s, theoretically and politically influenced by Tobin, the US introduced robust long-term interest rates policy. Of great importance here is that Tobin simplified the uncertainty developed by Keynes into calculable and safe or risky assets, which identified the liquidity effect. This, combined with the development of Keynesian economics rejecting exogenous money supply theory, was employed for monetary policies. As a consequence of the work of Tobin, with the great influence of Paul Samuelson on US policy formation, Keynesian economics enjoyed an era of high profile particularly in the US within monetary policies such as Operation Twist.[248]

---

[246] Notable monetarists Brunner and Meltzer emphasised 'loan-rationing' and 'non-Keynesian channels' for the process of portfolio adjustments and relative asset pricing instead of the effect of interest rates, the so-called 'Keynesian channel'. See Karl Brunner and Allan H. Meltzer, 'Money and Credit in the Monetary Transmission Process', *The American Economic Review*, Vol.78, No.2, 1988, pp.446-51, and Karl Brunner and Allan H. Meltzer, *Money and the Economy: Issues in Monetary Analysis* (Cambridge: Cambridge University Press, 1993), pp.53-103.

[247] There is extensive research on the effects of quantitative easing. However, there is no consensus on the effects on bank lending and structures of interest rates through portfolio rebalancing arising from quantitative easing. For a comprehensive survey of the effects of quantitative easing, see Claudio Borio and Anna Zabai, 'Unconventional monetary policies: a re-appraisal', *BIS Working Papers*, No.570, July 2016. For casework on quantitative easing and portfolio rebalancing, see Johannes Tischer, 'Quantitative Easing, Portfolio Rebalancing and Credit Growth: Micro Evidence from Germany', *Bundesbank Discussion Paper*, No.20, 2018.

[248] Under the Kennedy administration, Paul Samuelson and Walter Heller played a significant role within the policy making process. Samuelson and Allan Sproul, former President of the Federal Reserve Bank of New York, supported Operation Twist. See Meltzer, *A History of the Federal Reserve, Vol.2*, p.316. Sproul is well known for his role in the Accord between the Federal Reserve and

Conversely, in spite of the Radcliffe Committee's assertion of the impact of general liquidity effects within the interest rates structure, which can be considered not conflictive with Tobin's theoretical components, major control of the interest rates structure, in the US sense, was not implemented in the UK. Rather, there was reluctance to mobilise the long-term interest rates, especially from the Bank of England.[249] Thus the unavoidable question looms of why the UK was not able to introduce its own Operation Twist, or mobilise change in long-term interest rates so as to enhance the balance of payments and encourage business investment. This chapter will investigate this through analysis of the political process of monetary policy formation.

3.3 Economic background

In 1958, gold outflow from the US became prominent. The gold certificate held by the Federal Reserve plummeted by approximately 25 billion dollars between 1958 and 1960 (Figure 3-2). As Figure 3-3 indicates, the US basic balance of payments significantly worsened throughout the entire period of the 1960s with the exception of the years 1961 and 1964. Under the Bretton Woods system, the gold drain from the Treasury's gold window caused unrest surrounding the prestige of the dollar pegged with gold.[250] Moreover, President Kennedy's

---

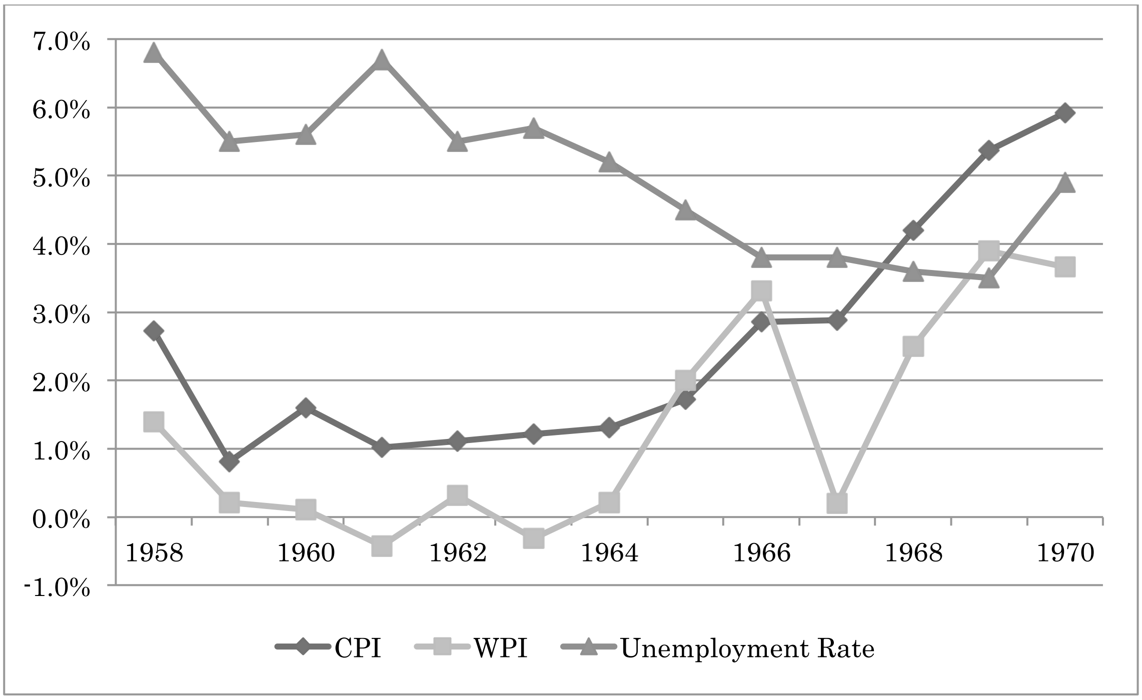
the US Treasury in 1951, which was the turning point from bolstering the prices of federal debt by the purchase of FRBs towards bills-only policy.

[249] John G. Gurley, 'The Radcliffe Report and Evidence', *The American Economic Review*, Vol. 50, No. 4, September 1960, pp. 672-700.

[250] The link between the amount of issued Federal Reserve notes and real assets, such as silver and gold, gradually weakened. Congress abrogated the Silver Purchase Act in 1963, and the Kennedy administration phased out the holding of silver. Succeeding this change, on 3 March 1965, Congress discarded the rule regulating the holding of gold reserves at 25 per cent of

administration faced a high unemployment rate inherited from President Eisenhower's administration (Figure 3-1). The target unemployment rate was 4 per cent, so-called 'full employment', however, this target was not met until economic expansion and inflation occurred, driven by escalation of the Vietnam War. With an unfavourable economic condition and outlook, the administration succeeding Eisenhower was faced with the necessity to break the international and domestic economic impasse.

Figure 3-1: US Price Index and Unemployment Rate



Source: US Bureau of Labor Statistics.

Federal notes and deposit liabilities. On 18 March, Congress abolished these reserve requirements on Federal notes. For a historical account, see Raj Roy, 'The Battle for Bretton Woods: America, Britain and the international financial crisis of October 1967-March 1968', *Cold War History*, Vol.2, No.2, 2002, pp.33-60. Roy argued that the Treasury reduced its dependency on gold holdings to manage the value of the dollar.

Figure 3.2: Balance Sheet of Federal Reserve Banks

Year	Asset				Debt				Gold Certificate Reserve Ratio
	Gold Certificate	Total	Government Bond		Federal Reserve Note	Total	Deposit		
			Short-term	Medium & Long-term			Member Banks	Non-Member Banks	
1958	19,951	26,347	23,768	2,579	27,872	19,526	18,504	1,022	42.1%
1959	19,164	26,648	13,113	13,535	28,262	19,716	18,174	1,542	39.9%
1960	17,479	27,384	11,960	15,424	27,924	18,316	17,081	1,235	37.8%
1961	16,615	28,881	4,892	23,989	28,802	18,451	17,387	1,064	35.2%
1962	15,696	30,820	15,624	15,196	30,151	18,722	17,454	1,268	32.1%
1963	15,237	33,593	11,208	22,385	32,381	18,391	17,049	1,342	30.0%
1964	15,075	37,044	6,044	31,000	34,659	19,456	18,086	1,370	27.9%
1965	13,436	40,768	9,100	31,668	37,074	19,620	18,447	1,173	23.7%
1966	12,674	44,316	16,154	28,162	39,339	20,957	19,779	1,178	21.0%
1967	11,481	49,112	15,975	33,137	41,642	22,920	20,999	1,921	17.8%
1968	10,026	52,937	18,756	34,181	44,726	33,484	21,818	11,666	12.8%
1969	10,036	57,154	22,266	34,888	47,473	24,338	22,085	2,253	14.0%
1970	10,457	62,142	25,965	36,177	50,323	26,687	24,150	2,537	13.6%

Note: Gold Certificate reserve ratio was required to be above 25 per cent. It was abolished in February 1968.

Source: Federal Reserve Bulletin, various issues.

Figure 3-3: Overall Payments Balance ($ Millions)

	Government Balance	Commercial Trade Balance	Direct Investment Balance	Long Term Capital Balance	Gross Liquidity Balance	Basic Balance
1960	-3,620	2,846	1,157	-567	-3,711	-1,211
1961	-3,312	3,175	1,668	-656	-2,432	-20
1962	-3,058	2,018	2,080	-1,085	-2,865	-1,043
1963	-2,865	2,342	1,754	-1,396	-2,554	-1,339
1964	-2,882	3,769	2,085	-2,177	-3,088	-100
1965	-3,125	1,999	1,384	-1,166	-1,421	-1,817
1966	-3,802	665	654	762	-2,165	-2,621
1967	-4,601	277	1,944	-95	-4,890	-3,973
1968	-4,420	-2,711	2,552	3,750	-2,169	-2,287
1969	-4,456	-2,487	3,476	2,315	-5,919	-3,949
1970	-4,992	-507	2,947	1,816	-4,466	-3,760
1971	-5,887	-5,590	2,258	530	-23,779	-10,367
1972	-7,050	-9,381	4,539	3,082	-15,786	-11,113
1973	-6,538	-2,416	7,878	2,489	-9,602	-977

Source: Derived from Fred L. Block, *The Origins of International Economic Disorder, A Study of United States International Monetary Policy from World War II to the Present* (London: University of California Press, 1977), p.160.

President Kennedy unveiled several strategies to decrease the unemployment rate and defend the dollar. One of the main strategies proposed was to control the structure of interest rates. The Kennedy government calculated that reduction in long-term interest rates would foster business investment, and that an increase in short-term interest rates would alleviate the gold outflow. This scheme was considered as a means of breaking through the impasse of economic upswing leading to a deficit in the trade balance and inflation, which would be detrimental on the export market through the difference of Purchasing Power Parity. Under this guideline, the US Treasury department issued more Treasury Bills (TB) and less medium and long-term bonds while the Federal Reserve absorbed long-term bonds through open market operations.

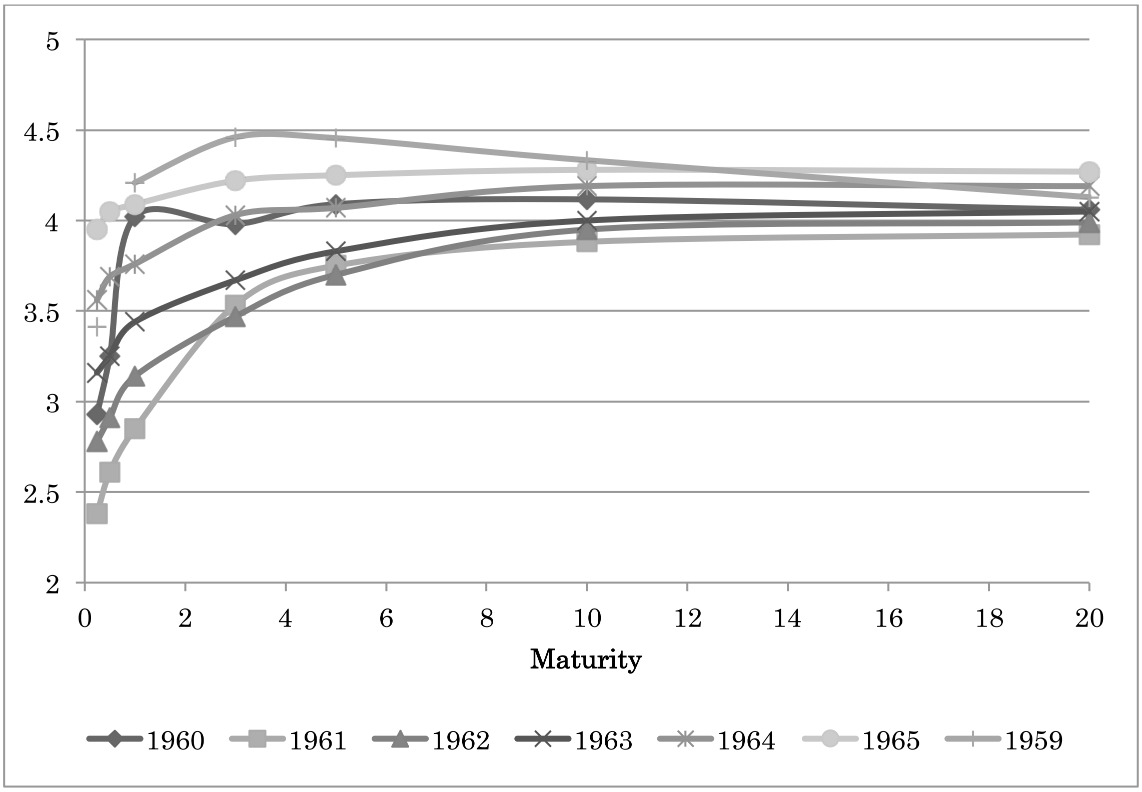
This co-ordinated debt management pushed up short-term interest rates of US government securities and the interest rates of long-term bonds remained low. The yield of government bonds moved along the aim of Operation Twist, which was to flatten the yield curve (Figure 3-4). However, incredulous eyes were cast on Operation Twist regarding its effect. Tobin argued that increase in Regulation Q, which capped various interest rates on deposits at commercial banks, significantly affected the interest rates structure and was the most prominent factor of the success of the interest rates policy.[251] Moreover, the interest rates of US long-term government bonds were regulated under the Second Liberty Bond Act, with a cap of 4.25 per cent, which might have contributed to lowering or maintaining long-term interest rates.[252] In this respect, Operation Twist can be considered a policy that provided a means of financing the government through containing the interest rates of bonds below this ceiling, which entailed circumstance for the issue of bonds.

---

[251] Tobin, *Essays in Economics Volume 1*, p.343. Tobin asserted that 'the greatest triumphs of Operation Twist were due to increase in Regulation Q, which eased the markets for mortgages and long-term securities while short-term rates were kept at an internationally safe level'. Regulation Q applied to bank deposit accounts, not to savings and loan associations.

[252] The Second Liberty Bond Act Section 1 regulated interest rates on the US governmental medium and long-term bonds, the maturities of which were longer than 5 years, up to 4.25 per cent. In 1959, the interest rates on medium and long-term bonds exceeded this limit. The US Treasury contrived to repeal this regulation and drew the concession from the Attorney General that this regulation covered not discount government bonds but coupon rates on the bond, which was written in Section 20. During the high interest period of the Vietnam War, this legal limit curtailed coverage on the bonds, applied to maturities over 7 years in 1967. In 1971, Congress determined that the issue of bonds up to 100 million dollars were excluded from this interest rates regulation.

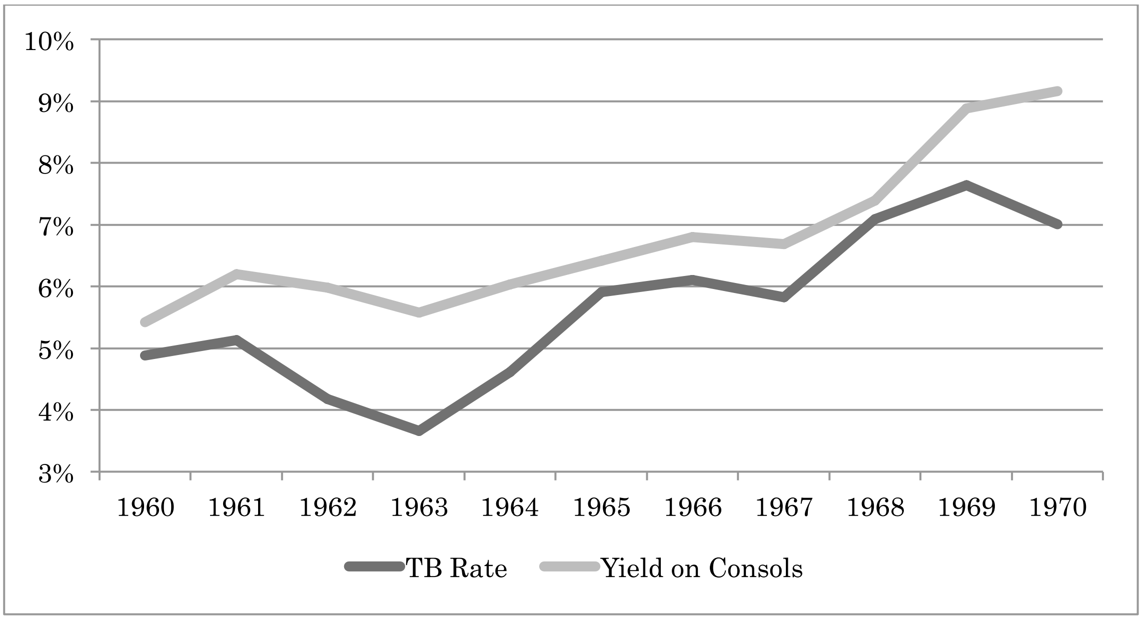
Figure 3-4: US Yield Curves (%)



Source: Board of Governors of the Federal Reserve, Selected Interest Rates.

Meanwhile, the UK focused on the Bank Rate in order to control short-term capital outflow and did not embark on manipulation of long-term interest rates. In the UK, the spread between the TB (Treasury Bill) rate and consols widened during the span of the Kennedy era under Operation Twist from 1961 to 1963 (Figure 3-5). This graph shows that in the UK, the gap widened from 1 per cent in 1961 to 2 per cent in 1963, contrasting with movements in the US under Operation Twist. In this period, the UK relied on traditional monetary and fiscal measures for economic management. During the Berlin Crisis of July 1961, the Bank increased the Bank Rate from 5 per cent to 7 per cent, and increased the rate on special deposits by 1 per cent. On the fiscal side, in the same year, Selwyn Lloyd, Chancellor of the Exchequer, announced a 10 per cent surcharge on existing customs, excise duties and purchase tax. In addition, the UK government announced strict incomes policy, setting a six-month pay-pause in the public sector, and declared a further reduction in public expenditures of £300 million for the period covering 1962-63. This band of policies were collectively termed the ‘July measures’.[253]

Figure 3-5: UK TB Rate and Yield on Consols



Source: N. H. Dimsdale, ‘British Monetary Policy since 1945’, in N. F. R. Crafts and Nicholas Woodward, (eds.), *The British Economy Since 1945* (Oxford: Clarendon Press, 1991), p.111.

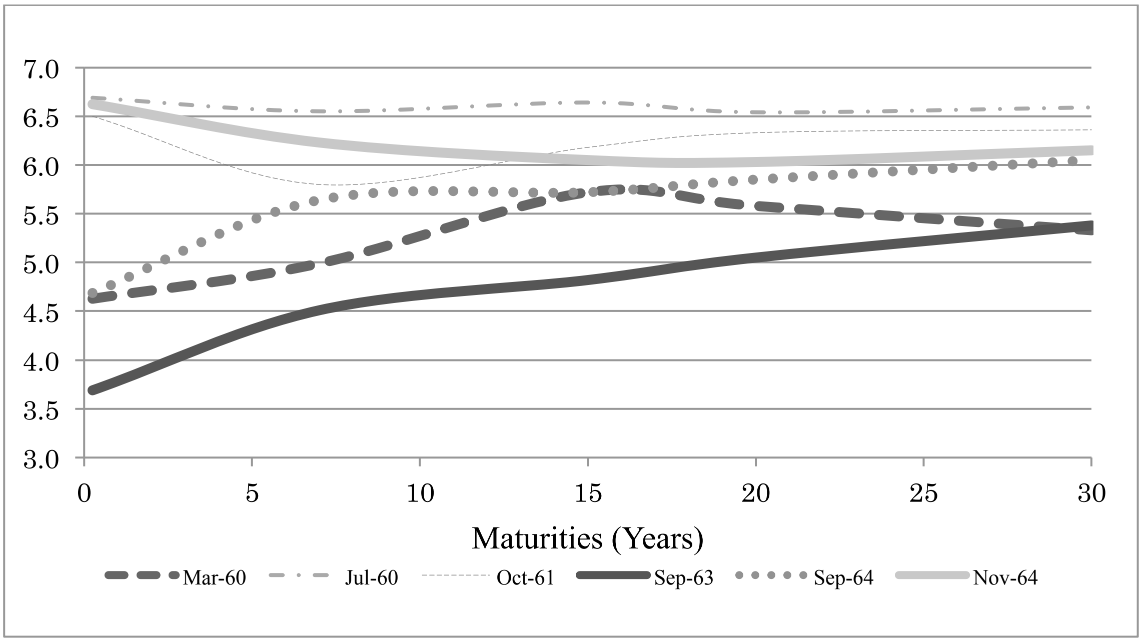
[253] Cairncross, *Managing the British Economy*, pp. 44-51.

Figure 3-6: Yields on Government Securities (%)

	Mar-1960	Jul-1960	Oct-1961	Sep-1963	Sep-1964	Nov-1964	Jul-1965	Sep-1965
TB	4.63	6.69	6.50	3.69	4.69	6.63	5.63	5.50
Short-dated	4.99	6.55	5.80	4.51	5.64	6.23	6.95	6.55
Medium-dated	5.72	6.64	6.18	4.82	5.72	6.05	6.81	6.47
Long-dated	5.58	6.54	6.33	5.05	5.85	6.03	6.69	6.17
2.5% Consols	5.33	6.59	6.36	5.38	6.05	6.15	6.66	6.20

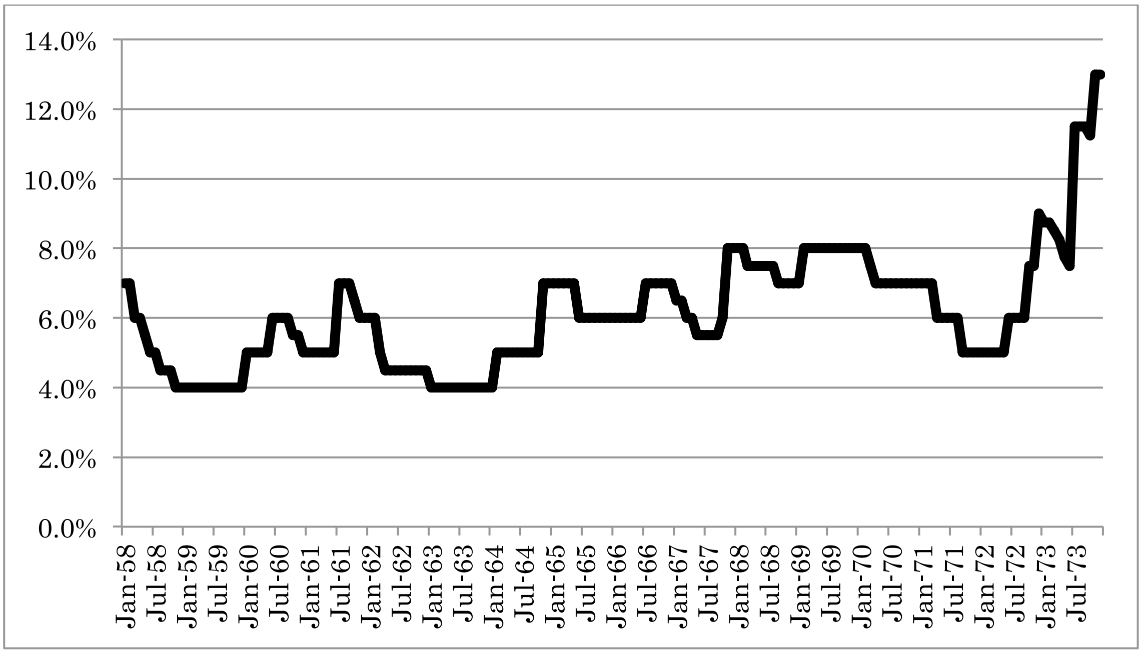
Source: TNA, T326/371, Debt Management.

Figure 3-7: UK Yield Curves (%)



Source: TNA, T326/371, Debt Management.

Figure 3-8: UK Bank Rate 1958-1973



Source: The Bank of England, Official Bank Rate History.

Note: From October 1972 the rate refers to the Minimum Lending Rate.

In November 1963, the succeeding Chancellor Reginald Maudling announced fiscal measures known as the 'dash for growth' and embarked on expansionary policies, with the decrease in purchase tax on motors, increase in investment allowances and depreciation rates on the industrial sector.[254] This is considered the transition point from 'stop' to 'go'.[255] As a preliminary monetary measure, the Bank had decreased the Bank Rate to 4 per cent in January 1963.[256]

---

[254] Cairncross, *Managing the British Economy,* pp.65-7.

[255] Paul Mosley, *The Making of Economic Policy: Theory and Evidence from Britain and the United States since 1945* (New York: St. Martin's Press, 1984), p.98.

[256] Maudling also proposed a new international currency swap scheme, the Mutual Currency Account. However, this proposal was declined by the US. As delineated in chapter 2 of this thesis, the US had already taken the initiative for

In order to ameliorate the balance of payments deficit and to encourage economic expansion, the UK government relied on various fiscal measures and manipulation of the Bank Rate with the ancillary special deposit scheme.[257] Meanwhile, the UK did not directly intervene in the long-term interest rates to a significant scale, and the Bank reiterated its stance to maintain a sound gilt-edged market. Capie has detailed that Cameron Cobbold, Governor of the Bank from 1949 to 1961, was reluctant to intervene in the gilt-edged market. The Governor stated that he would enhance and maintain the sound gilt-edged market if a situation where this was necessary emerged.[258] In sum, while common ground was found in fiscal measures between the UK and the US, UK monetary measures, particularly in the terrain of debt management, did not undertake direct manipulation of the long-term interest rates under governmental schemes, whereas the US did so under Operation Twist. The cause of this diversion is considered below, from the British perspective.

3.4 Direct control of interest rates

3.4.1 The attempt to establish preferential interest rates to encourage exports

Before the UK government considered manipulation of long-term interest rates through debt management, in 1961 Prime Minister Harold Macmillan sought the

---

a currency swap market by establishing the Dollar Swap Agreement in 1962.

[257] N. H. Dimsdale, 'British Monetary Policy since 1945', in N. F. R. Crafts and Nicholas Woodward, (eds.), *The British Economy Since 1945* (Oxford: Clarendon Press, 1991), p. 116, and C. A. E. Goodhart, 'Monetary policy in the United Kingdom', in Karel Holbik (ed.), *Monetary Policy in Twelve Industrial Countries* (Boston: Federal Reserve Bank of Boston, 1973), pp.465-524.

[258] Capie, *The Bank of England,* pp.107-8.

means to encourage exports through change of the structure of market interest rates. The proposed scheme was called 'finance for exports'. On 24 October 1961, in a telegram to the Chancellor, the Prime Minister mentioned differential interest rates for exports, and he expressed that he was 'most anxious' this scheme be introduced.[259] Just months prior to this, an interim report by the Treasury concerning the cost of export finance had been circulated.[260] This report asserted that the rise in the Bank Rate discouraged exports. However, it also expressed a dim view of the possibility of persuading banks to offer medium-term fixed interest rate credit or concessionary rates for a specific area of exporters. Conversely, the interim report considered a 'special cheap rate of interest' which was considered at 0.5 per cent below the Bank Rate, and 'would have to be made good' by the government.[261]

On 13 September 1961, the Working Group on the Cost of Export Finance discussed export finance based on the interim report.[262] First, this working group put forth the disadvantageous effects of high long-term interest rates on exporters. Long-term interest rates were considered not to be affected by the changes in the Bank Rate, and it was outlined that reduction of long-term interest rates would foster investment overseas, which could be detrimental to the position of the foreign reserves. Focusing on short-term interest rates, the working group concluded that a scheme should be designed to shield exporters

[259] TNA, BT213/145, Prime Minister's Personal Telegram to the Chancellor of the Exchequer, 24 October 1961.
[260] TNA, T312/260, Cost of Export Finance, Sir William Armstrong to Leslie O'Brien, 17 August 1961.
[261] Ibid.
[262] TNA, T312/260, Working Group on the Cost of Export Finance, Note of a meeting held at the Treasury, 13 September 1961, 3 p.m. This working group consisted of staff representing the Treasury, Bank of England, Board of Trade, Foreign Office, Export Credits Guarantee Department (ECGD) and Ministry of Transport.

from the effects of short-term interest rate fluctuations.[263] Evidently, while Operation Twist was conducted in the US in the early 1960s, the UK Treasury perceived that high long-term interest rates would constrain export activity, whereas lower long-term interest rates would potentially foster capital outflow.

On 6 October 1961, the working group investigated possible methods to increase exports. These methods consisted of concessional rates provided by the banks, export finance from public funds and a subsidy from the Treasury to the commercial banks.[264] Concerning concessional rates from commercial banks, the working group discussed the difficulties of persuading or compelling the banks to provide cheap money. Regarding establishment of public funds, the working group was concerned that this would entail the necessity for legislation and that such institutions would become permanent. In addition, necessary fiscal funding, possibly £600-700 million, was seen to put significant pressure on the gilt-edged market.

In terms of a subsidy from the Treasury, the working group concluded that its main practical advantage manifested in lower costs to manage the scheme, however, this scheme presented limited effects and a possible breach of international rule.[265] Under European Free Trade Association (EFTA) guidelines, grants of export credit from the government and governmental agencies were prohibited. EFTA also prohibited governments to bear the costs incurred by exports. In addition, the General Agreement on Tariffs and Trade (GATT) prohibited export subsidies for manufacturers. While the UK was considering accession to the EEC and played a leading role in elimination of trade barriers

---

[263] Ibid.
[264] TNA, T312/261, Working Group on the Cost of Export Finance: Report to Ministers, 6 October 1961.
[265] Ibid.

in the world market, subsidies were not considered the course to be pursued. Furthermore, regarding the establishment of public funds in order to provide export finance, the working group was concerned that this scheme would create additional fiscal burden, and that the legislative process would be controversial.[266]

While the working group demonstrated its reluctance to create a governmental scheme to provide cheap money through the financial market or public agencies, at this stage, Prime Minister Harold Macmillan put significant pressure on the Treasury and the Bank. He suggested that if the Bank were sluggish to consider preferential interest rates, he would summon the Governor, Chancellor and the President of the Board of Trade.[267] At the end of October 1961, Frederick Erroll, President of the Board of Trade, requested the Chancellor establish an institution to foster export finance.[268] Under pressure from the Prime Minister and the Board of Trade, the Chancellor reported to Macmillan that resulting from his meeting with Frederick Erroll, they were in agreement that international rule overriding the government subsidy scheme was 'formidable' and they would seek a lending scheme, as opposed to a subsidy, with interest rates that would be government borrowing rates plus a margin.[269] Export finance was on course to be managed, not by a governmental institutional scheme, but rather conducted in the market as lending in order not to breach the international commercial treaties. On 13 January 1962, the Bank

---

[266] Ibid.

[267] TNA, T326/405, Extract from the minutes of a meeting between the Prime Minister and the Chancellor of the Exchequer, Sunday 24 September 1961, 9 p.m.

[268] TNA, BT213/145, The Cost of Export Finance, President of the Board of Trade to the Chancellor of the Exchequer, 24 October 1961 and Export Incentives, Note of a meeting held in the Chancellor's Room, Tuesday 31 October 1961, 10 a.m.

[269] TNA, BT213/145, Differential Interest Rates for Export Credits, Chancellor to the Prime Minister 31 October 1961.

reached an agreement with the London Clearing Banks, Scottish Banks, and insurance companies over preferential interest rates. The agreement was to provide credit for exporters at a fixed rate of 5.5 per cent for between three and five years. In addition, insurance companies also agreed to provide credit at 6.5 per cent up to £100 million for longer than five years.[270]

As seen above, the Prime Minister's attempt to forge a scheme to encourage exports through reduction in medium and long-term interest rates for exporters was embodied in its management within the financial market through the initiative taken by the Bank. However, the proposed scheme in which the government or governmental agencies would take initiative was dropped due to rules set by international trade organisations, and in order to avoid permanent burden on public finance.

3.4.2 Two-tier interest rates to defend the foreign reserves

Following President Kennedy's suggestion of differential short-term interest rates for non-residents, foreign governments and monetary authorities to encourage official holders of dollar balances and hamper conversion of dollars to gold, the UK government began considering 'two-tier interest rates'.[271] On 14

[270] TNA, T312/261, The Cost of Export Finance, Sir Frank Lee (Permanent Secretary to the Treasury) to Hubback (Principal Private Secretary to the Chancellor of the Exchequer) 15 January 1962. Statement by the Chancellor of the Exchequer on Tuesday 23 January 1962. As Figure 3-8 indicates, the range of Bank Rates between 1961 and 1963 was between 4 and 7 per cent (the highest rate was 7 per cent in January 1961, which then dropped gradually to 4 per cent in January 1963).

[271] In October 1962, the amendment was passed and differential interest rates were introduced in the US. This scheme applied to foreign governments, monetary and financial institutions and international institutions of which the US

March 1961, Frederick Erroll proposed a scheme to set higher interest rates on foreign deposits in London to attract foreign capital and enhance the foreign reserves position.[272] In response to this proposal, the Bank confessed little faith in this scheme, citing the following reasons: if devaluation were expected by the market, high interest rates could not keep funds in London; the scheme would potentially insulate the domestic sector from the foreign sector and would be understood as the UK not taking sufficient measures to protect sterling in the domestic field; it would discriminate between domestic and foreign official and unofficial sterling holders which would impair the 'strength and breadth of the markets in London' as an international financial centre; the scheme would be kept outside the market and it would be necessary to provide monetising opportunities which would lead to further liquidation of UK gilts; under such a scheme sterling holders would hedge their exchange risk by forward exchange sale of sterling which would require the Bank to intervene in the forward exchange market to keep sterling attractive for investors; there would be difficulties in setting effective special rates.[273] This discussion reflected various aims of the Bank that sought sound gilt-edged markets and maintenance of confidence in sterling, especially for the holders of sterling balances and the internationally high profile of financial institutions in the City.

On 8 October 1962, Reginald Maudling, Chancellor of the Exchequer, also considered the above preferential interest rates for foreign depositors.[274] On 18

had been a member. BoEA, C43/321, U.S.A – Privileged Rates for Deposits of Central Banks, 22 October 1962.

[272] TNA, T326/405, President of the Board of Trade to the Chancellor of the Exchequer, 16 March 1961.

[273] TNA, T326/405, Differential Interest Rates, 27 April 1961, and Differential Interest Rates, Sir William Armstrong to Sir Denis Rickett, 9 May 1961.

[274] TNA, T326/405, Chancellor of the Exchequer to Sir William Armstrong, 8 October 1962.

October 1962, the Bank once again criticised this scheme.[275] From its perspective, this scheme would disturb the structure of market interest rates and would incur 'inescapable practical impediments'.[276] The London clearing banks would be in a weaker position due to the necessity to pay higher interest rates to foreign depositors. Even if a 'special security' bearing higher interest rates were issued, the Bank was concerned that the conversion of existing investment from overseas in gilt-edged securities to the newly issued special securities would disturb the gilt-edged market. In his conclusive remark, Governor Cromer asserted that such a scheme would 'threaten to make the cure worse than the disease'.[277] Although the Bank was preoccupied with measures to tackle the balance of payments deficit, it also represented the interests of the City and a preference for a sound gilt-edged market. This stance of the Bank, which was also seen in the Radcliffe Committee, was a contributing factor to the intensification of the conflict between Chancellor Maudling and Governor Cromer surrounding fiscal mobilisation towards economic growth.[278]

Rather than establish preferential interest rates for foreign depositors, Cromer proposed his own schemes, the 'Governor's Technical Device' and forward market operation.[279] This proposed that the Bank would lend to the discount market at 0.5 per cent above the Bank Rate in circumstances that the Bank Rate reduced, in a similar idea to the scheme currently termed 'dirty'

[275] TNA, T326/405, Governor of the Bank of England to Sir William Armstrong, 18 October 1962, and Differential Interest Rates, 18 October 1962.
[276] Ibid.
[277] Ibid.
[278] For the bitter relationship between Chancellor Maudling and Governor Cromer, see Lewis Baston, *Reggie: The Life of Reginald Maudling* (Stroud: Sutton Publishing Limited, 2004), p.184. Governor Cromer repeatedly warned Chancellor Maudling regarding the increase in public expenditure, however, this was ignored, resulting in the Governor directly contacting Prime Minister Macmillan rather than going through the Chancellor.
[279] TNA, T326/405, Governor of the Bank of England to Sir William Armstrong, 18 October 1962, and Differential Interest Rates, 18 October 1962.

interest rate targeting. Cromer asserted that this would keep the cost of the discount market high and increase the TB rate. Its influence would be placed upon the short-dated gilts and local authority borrowing, which were linked to the movements of the TB rate, therefore, the drain on foreign funds would be abated. In addition, Cromer explained that the bank advance was strongly connected to the Bank Rate rather than the discount rate, so that this scheme would not hamper credit provision of banks. Furthermore, the Bank considered intervention in the forward dollar market. The aim of this proposal was that the Bank would sell dollars in the forward market to reduce the cost of risk hedging. However, it noted that the operation would have to be used meticulously so as not to provoke a backlash from the US, which had sought to unencumber the sale of dollars.[280]

Therefore, this 'Governor's Technical Device' aimed to increase short-term gilt-edged securities in order to attract foreign capital without hampering bank lending. However, the prevalent view was that it would sacrifice local authority finance, and that it would be paramount to manage these schemes in order to circumvent a backlash from US.

On 20 December 1962, the Chancellor rejected the attempt to establish an institutionalised higher interest rates system for foreign funds and took on the above two schemes proposed by the Bank, which would be operated at the discretion of the Bank.[281] This decision represented the initiative of the manipulation or management of the interest rates structure being taken by the

[280] Ibid.
[281] TNA, T326/405, Differential Interest Rates, Note of a meeting in the Chancellor of the Exchequer's Room at the Treasury, Tuesday 20 December 1962, 3.30 p.m.

Bank, and with this, the influence of Prime Minister Macmillan and the Treasury faded away.

3.5 Debt management

3.5.1 Operation Twist in Britain?

Harold Macmillan noted in his diary on 19 October 1962 that Cromer and Maudling sought to lower long-term interest rates.[282] On 19 April 1962, the discussion over long-term interest rates had begun within the Treasury.[283] One of the main points of this discussion was whether the UK government should decrease long-term interest rates to support business investment, finance local authorities, and foster home ownership. Sir Frank Lee, Joint Permanent Secretary to the Treasury, noted that the monetary policy of the preceding two years had sought reduction in the issue of short-term debt, represented by the TB, and pushed up long-term interest rates in order to create a favourable milieu for funding government debt. With this analysis, it was stated that relatively high long-term interest rates would be key for 'attracting increased investment and in discouraging borrowing by overseas countries'. It was noted that succeeding 4-5 years government expenditure was 'built in', so it became necessary to consider means of funding government debt. Consequently, this discussion admonished further reduction in the Bank Rate or special deposit

[282] Catterall, *The Macmillan Diaries Vol. II*, p.507. In fact, the most enthusiastic proponent of lowering long-term interest rates was Prime Minister Macmillan himself, as shown below.
[283] TNA, T326/39, The Long Term Interest Rates, Sir Frank Lee to Hubback, 19 April 1962. The requirement to embark on reducing long-term interest rates by Harold Macmillan was seen in 1959, in TNA, PREM11/4772, Prime Minister's Personal Minute to the Chancellor of the Exchequer, 30 January 1959.

rate when economic stimulus policies were required, and concluded that 'somewhat' of a fall in long-term interest rates in the circumstances 'may be appropriate'.[284] While the US concluded that through Operation Twist lower long-term interest rates would encourage business investment, the UK predicted that lower long-term interest rates would lead to increase in the costs of public finance through hampering capital inflow.

On 25 April 1962, the Bank provided a new perspective, considering potential impact of change in interest rates on local authorities' finance.[285] Cromer pointed out that high interest rates for local governments suppressed the funding condition of local authorities, whereas conversely, it attracted 'possibly £100 million of foreign money'. Cromer continued that while the situation was precarious for the exchange market and local authorities, 'some modification' for local authorities should be considered. The meeting weighed arguments over the reduction in long-term interest rates, however, it was agreed that the further issue of long-term government bonds would be necessary to enable the Bank to control the end market in the long-term and to continue funding policy.[286] Here it should be noted that the new issue of long-term bonds would put rising pressure on long-term interest rates.

[284] TNA, T326/39, The Long Term Interest Rates, Sir Frank Lee to Hubback, 19 April 1962.
[285] TNA, PREM11/3760, Note of a Meeting in the Chancellor of the Exchequer's Room, Wednesday 25 April 1962.
[286] Ibid.
Behind this decision, there was a prediction of high long-term interest rates due to the increase in 'permanent "massive" social demand' and new industrial issues, proportionate decline in the holdings of gilts by banking and insurance companies, and the emergence of a situation of 'increased company dependence on the capital market'. Therefore, William Armstrong suggested that the amount of issue should be £500 million, in TNA, T326/39, William Armstrong to Robert Armstrong, 13 April 1962.

In line with the Bank, William Armstrong, Permanent Secretary to the Treasury, argued that an attempt to pull down the long-term interest rates to between 5 and 5.5 per cent would be 'a mistake' and that rates should be let be in the markets which would force them 'towards a gradual fall'.[287] In stark contrast to the opinion of Armstrong, characterised by advocacy of market forces, the Prime Minister stressed that a government interventional scheme was required due to the 'political importance of trying to get down mortgage rates on houses'.[288] At this time, building societies competed with local authorities over funding, and their borrowing rates were linked to gilt-edged rates, hence the dispute over long-term interest rates also related to the arrangement of interests amongst building societies and local authorities.

In terms of housing policies under the Macmillan government, the Conservative Party is considered to have strongly pushed free market forces into the housing market, which was crystallised into the abolition of Land Tax on imputed rental income, dubbed Schedule A, and deregulation of the private rental market.[289] Eventually, the post-World War II 'property-owning democracy' or 'home-owning society' gained momentum, at least under the Conservative government, contrasting to the previous trend of the expansion of social

---

[287] TNA, T326/39, William Armstrong to Hubback, 3 May 1962.

[288] TNA, T326/39, Sir Frank Lee to William Armstrong, 25 May 1962.

[289] For other notable housing measures of the Macmillan government, such as the exemption of income from the sale of principal dwellings from capital gains tax, retaining of mortgage tax relief and so on, see Brian Lund, *Housing Politics in the United Kingdom: Power, planning and protest* (Bristol: Policy Press, 2016), Brian Lund, *Housing Problems and Housing Policy* (London: Longman, 1996), Martin J. Daunton, *A Property Owning Democracy? Housing in Britain* (London: Faber and Faber, 1987). See also, *Stuart Lowe, The Housing Debate* (Bristol: Policy Press, 2011). Mullins and Murie have classified the development of post-World War II UK housing production and policies. The period between 1954 and 1964 is detailed as the expansion era of the private housing market. See David Mullins and Alan Murie, *Housing Policy in the UK* (Basingstoke: Palgrave Macmillan, 2006), pp.27-33

housing and various regulations on the private rental housing market.[290] As existing research on the housing policies has also suggested, Prime Minister Harold Macmillan tried to push mortgage interest rates down and expand the private housing market, however, it will be delineated below that this attempt was attacked by Cromer in advocacy of free market forces.

The Prime Minister expressed clearly his position over the long-term interest rates on 14 June 1962.[291] He asserted to the Chancellor, 'You know how keen I have been to try to get the long term interest rate down. This has been largely for social and political reasons. I was thinking of mortgage etc.'. As an 'additional reason', he pointed out that

> if industrial investment is really beginning to fall it is very important to try to get a reduction in its cost. [...] I hope therefore you will most seriously consider the necessary technical steps to achieve a lower long term interest rate, even if it is not possible yet to make any further reduction in the bank rate [292]

The Prime Minister detailed the additional factor that lowering long-term interest rates would bolster the economy through reduction in the costs of industries. Furthermore, he implied it would also reduce the cost borne by local authorities in a critical market condition to raise funds in the era of high long-term interest

---

[290] The birth of the 'home-owning society' can be traced back to the early twentieth century. The phrase 'home-owning democracy' was introduced by Noel Skelton, Conservative Scottish Unionist MP, who had links with Harold Macmillan and Anthony Eden through the 'Young Men's Christian Association'. Sir Alec Douglas-Home was his secretary from 1931 to 1935. See Lund, *Housing Politics in the United Kingdom*, p.117. For an account on the birth of 'home-owning society', see *Lowe, The Housing Debate*, chapter 3. It should be noted that this emergence of 'home-owning society' varied in each district, see Daunton, *A Property Owning Democracy?*

[291] TNA, PREM11/3760, Prime Minister's Personal Minute to the Chancellor of the Exchequer, 14 June 1962.

[292] Ibid.

rates.[293] As such, by advocating a policy which partially mirrored the US debt management policies in the same field of long-term interest rates, the Prime Minister sought the UK's own version of the US scheme. However, it should be noted that the UK government also considered reduction in the Bank Rate.

Spurred by the Prime Minister's ardent recommendation of long-term interest rates manipulation, the Bank and Treasury began investigations into its plausibility. On 12 June 1962, the draft version of their report on the Prime Minister's proposed scheme predicted long-term interest rates would not fall very far due to the strong demand for capital, and pointed out that inappropriate government handling would lead to 'the loss of monetary control through the inflation of the market Treasury Bill issue' and provoke 'the danger of the loss of public confidence'.[294] The report concluded that 'the right policy' was not to accelerate, but to let the long-term interest rates take a 'gradual fall'. It again stressed the importance of letting market forces determine the prices and rates of gilt-edged securities, and the necessity to avoid possible disruption from a change in the interest rates structure.

Concerning building societies and local authorities, this draft report argued that building societies determined borrowing rates according to their chief competitors: local authorities. Conversely, local authority rates offered to investors were influenced by gilt-edged rates. The structure of the competition was recognised in the report as one of the elements which would encumber the funding of local authorities. It was asserted that even if the lowering of long-term interest rates were accomplished, the rate offered by building societies would decrease along its trend so that the effect of lowering long-term interest rates

[293] Ibid.
[294] TNA, T326/39, Draft Long Term Interest Rates and the Encouragement of Saving, 12 June 1962.

would be limited to foster favourable circumstance for local authority funding. Moreover, it was stated that the lowering of interest rates by building societies would lead to the reduction of income tax relief on interest for borrowers, such as mortgage interest relief, which would not benefit mortgagors.[295] This report cast a sceptical view on the effect of lowering long-term interest rates for mortgage borrowers and local authorities on the grounds of these potentially paradoxical results.

This investigation moved on to consider taxation on building societies in order to provide lower mortgage rates. At the time, building societies were subject to income tax and profits tax. However, building societies sought exemption from profits tax due to their public nature and the fact that any surplus went to reserves for re-lending, thus in their assertion making them not profitable. If this tax exemption were implemented, it was calculated that the lending rate of building societies would reduce by 0.25 per cent. However, this would cost the government budget £15 million and possibly reach £40 million if other co-operative societies were included in this scheme. This proposed taxation reform was previously considered at committee and rejected by the government in 1962, hence the investigation reiterated that this scheme would not be suitable for reduction in the cost for borrowers purchasing houses.[296]

The balance of payments deficit and its influence on sterling were also significant aspects for concern, and were brought to the Chancellor's attention through a draft investigation on 25 June 1962. However, as this draft strongly criticised the Prime Minister's suggested schemes, the Chancellor requested that the report to be presented to the Prime Minister should be made 'much

---

[295] Ibid.
[296] TNA, T326/39, Long Term Interest Rates, 25 June 1962.

shorter' and 'more positive'.[297] Thus, the brief version was handed to the Prime Minister on 11 July 1962.[298] It raised the potential advantageous points of low long-term interest rates as beneficial for government finance, nationalised industries, local authorities, private industries through cost reduction, and individual mortgagors. The report also pointed out that low long-term interest rates would be compatible with international co-operation over foreign exchange, and would be beneficial if the UK joined the European Economic Community (EEC).

However, potential disadvantageous effects of lowering long-term interest rates were also detailed in the report. It pointed out that lowering long-term interest rates would make the City markedly less attractive for foreign investors. If interest rates were to swiftly take the opposite turn, it would 'destroy' the appeal of gilt-edged securities and make management of monetary policy 'needlessly more difficult'. In addition, the Chancellor predicted an increase in income and overseas interest rates, with further difficulties to emerge surrounding the dollar.[299] In other words, the Chancellor expected potential inflation driven by the increase in wages in the UK, combined with the possible loss of foreign reserves and deterioration of the balance of payments with the internationally wider gap of interest rates. The Chancellor took the stance that if this were to occur, the UK exchange market and gilt-edged market would be difficult to manage. In the conclusive remark of this report, the best course was deemed 'to continue to allow the increasing demand for gilt-edged to be

[297] TNA, T326/39, Sir William Armstrong to Sir Thomas Padmore, 3 July 1962.
[298] TNA, PREM11/3760, Chancellor to the Prime Minister, Long-Term Interest Rates, 11 July 1962.
[299] Ibid.

reflected primarily in rising prices rather than in sales by ourselves' and 'to maintain firmly our anti-inflationary policies'.[300]

In response to this assessment of his proposal to lower long-term interest rates, the Prime Minister asserted that he was 'not very much impressed by either of the documents.' Rather than assert his proposals a second time in the same manner, Prime Minister Macmillan sought to avoid 'embarrassment with the officials of both the Treasury and the Bank of England', and ordered Timothy Bligh, Principal Private Secretary, to consider this matter.[301] However, the issue of long-term interest rates left a significant rift between the Prime Minister and the Chancellor. In September 1962, the Prime Minister denounced the Chancellor's attitude toward long-term interest rates. He stated,

> I think it was the Treasury who brought great pressure on Conservative Chancellors to force the local authorities on to the market. No doubt they expected them to go on to the long term market and not to borrow money from day to day. However, it would be as well to see what Mr. Butler or I said when we held your present post, not because it should alter the present decision but because we shall have to put the best face on it we can and the line of defence should be thought out ahead.[302]

From the above arguments and this dispute between the Prime Minister and the Treasury, chiefly Selwyn Lloyd, it is clear that the Prime Minister sought to lower long-term interest rates in order to create favourable circumstances for various aims, including funding local authorities in a less costly manner,

[300] Ibid.
[301] TNA, PREM11/3760, Prime Minister to Bligh, Treasury Policies, 15 July 1962.
[302] TNA, PREM11/3760, Prime Minister's Personal Minute to the Chancellor of the Exchequer, 3 September 1962. This statement was circulated to Sir Norman Brook, Cabinet Secretary and Permanent Secretary to the Treasury, and Martin Redmayne, Chief Whip.

encouraging business investment, reduction of mortgage rates and to ameliorate the balance of payments by increasing exports through fostering industrial investment. In this situation, some Treasury officials echoed the Prime Minister's view that reduction in long-term interest rates was paramount. Thomas Padmore, of the Treasury, expressed his view that a fall in long-term interest rates was more important than the 'marginal effect of a small reduction in short-term rates.'[303] However, although the Bank and Treasury recognised the significance of long-term interest rates, they did not follow Prime Minster Macmillan's line of express necessity to take any measure to manipulate rates, mainly so as not to disrupt the gilt-edged market and potentially harm the standing of the City as an international financial centre. Cromer in particular was preoccupied with defending financial markets, and stated that he was anxious not to jeopardise the trend of falling long-term interest rates.[304] In addition, Cromer was reluctant to increase the Bank Rate so as not to damage the price of long-term bonds. In sum, the Prime Minister's proposal was denied in a backlash from the Chancellor, Treasury and the Bank, who sought to defend sterling and the sound gilt-edged market, leaving long-term interest rates to market dynamics.

---

303 TNA, PREM11/4772, Foreign Office Telegram No. 70 to New York, Padmore to Hubback, 24 September 1962.

304 TNA, PREM11/4772, Foreign Office Telegram No. 71 to New York, Cromer to Hubback, 24 September 1962.

3.5.2 September 1962: debt management and low interest rates

With the New York Stock Exchange in doldrums and the US economy slowing, the circumstances surrounding the UK gilt-edged market significantly altered. The UK attracted foreign funds and its bond prices continued to rise over the course of 1962. As Figure 3-9 indicates, the prices of all maturities of gilt-edged securities including long-term bonds continued to rise (interest yield decreased).

Figure 3-9: Interest Yields of Gilt-edged Securities in 1962

	Short (5.5% Exchequer 1966)	Medium (5% Conversion 1971)	Medium (3.5% Treasury 1979-81)	Undated (Consols)
January 1st	6.0	6.3	6.4	6.6
July 1st	5.3	6.1	6.3	6.2
September 1st	4.4	4.9	5.2	5.5

Source: TNA, T326/40, Slater to Burdett, 15 October 1962.

This trend of lower long-term interest rates was sceptically considered by officials of the Treasury.[305] Sir William Armstrong analysed this trend as ‘equilibrium’, and asserted that the range should be kept between 5 and 6 per cent. On the other hand, Slater, of the Treasury, accepted that tighter credit control would ‘make investment by companies more dependent upon external finance and marginally more responsive to changes in long-term rates’. Slater continued to explain that if long-term rates were to fall to the region of 4.5 per cent, the private construction industry or local authorities might invest

[305] TNA, T326/40, Long-Term Interest Rates: Prospective Investment and Savings, Slater to Radice, 30 August 1962.

substantially and it would create favourable circumstances for tax reduction and increase in employment. Furthermore, Slater pointed out that this trend would ease public finance which would prove beneficial politically and electorally. However, he suggested that due to inflationary pressure residing in this trend, the 'proper' long-term interest rate ought to be 5.5 per cent. As such, Slater raised an argument to stop the trend of lowering long-term interest rates.[306] The trend of low interest rates was recognised as the driving force in expanding business investment and employment, which could aid Conservative election, whereas the Treasury considered that such expansive economic policies risked potential inflation. Therefore, the Treasury favoured stopping or leaving the trend of low interest rates to the market arbitrage force.

At this stage, a sceptical view in relation to the Radcliffe Committee's report was cast by the Treasury that, although the increase in liquidity would encourage consumption expenditure, investment was 'interest-inelastic'.[307] This critique can be interpreted as conceiving that an increase in liquidity in the period of low interest rates would foster an inflationary force rather than investment. With the spread of this sceptical view of lowering long-term interest rates, the Bank expressed its preference for slowing the rise in long-term gilt-edged prices.[308]

Within the trend of the fall in long-term interest rates, the government increased issue of long-term and medium-term bonds and lengthened the maturity structure of the national bonds as below (Figure 3-10). While this doubtlessly contributed to the cheap financing of the government, this operation

[306] Ibid.
[307] TNA, T326/40, F. J. Atkinson to Sir Alec Cairncross, The Fall in Interest Rates, 5 September 1962, and G. L. Bell to Atkinson, The Determination of the Long Rate, 11 September 1962.
[308] TNA, T326/40, Radice to Goldman, 4 October 1962.

disproportionately affected the medium and long-term gilt-edged markets. Due to the breadth of the long gilts market being relatively shallower than the medium gilts market, the debt management operation had a greater impact on long-term gilts. This provoked a wider gap between the rates of long and medium term bonds (Figure 3-9).

Figure 3-10: Change of the Structure of Debts (£ Millions)

	TB	Short-term	Medium-term	Long-term
July, 1962	-24	-40	+37	+49
August, 1962	-44	-63	+74	+72
September, 1962	+61	-95	+96	+90
Change	-7	-198	+207	+211

Source: TNA, T326/40, Bell to Sir Alec Cairncross, 16 October 1962.

As a consequence of the high demand on gilt-edged securities surpassing supply, Leslie O'Brien, of the Bank, informed the Treasury that the Bank lost stock of long taps, decreasing from £260 million to £120 million in just two weeks from September to October. The Bank then considered new issue of long-term bonds.[309] This indicates that the Bank potentially lost control of the long-term gilt-edged market through depletion of its long-term gilts, which might have led to inability to sell long-term gilts or increase its rate. Consequently, Alan Whittome, Chief Cashier of the Bank, explained the strategy that the Bank would, if necessary, purchase short-term against sales of long-term gilts within a range of 5 to 5.5 per cent and fill the gap of interest rates between medium

[309] TNA, T326/40, Goldman to Padmore, 15 October 1962.

and long-term gilts in order to maintain the yield curve.[310] This operation by the Bank was perceived by the Treasury to 'soften' long-term interest rates and 'stiffen' short-term rates.[311] Behind this argument, the high demand for gilts stemmed from the decline in attractiveness of equities and the prospect that if demand and private profits continued to grow, increasing bond prices would reverse.[312]

As a result of this fall in long-term interest rates, funding costs of local authorities decreased. On the other hand, although building societies had not changed lending rates of 6.5 per cent, except for Halifax and Leicester Permanent, Dunham, Chairman of the Building Societies Association, stated that they would provide longer-term lending.[313] Thus, Prime Minister Macmillan's proposal to lower long-term interest rates, which had been rejected by the Bank and Treasury to be let be in the market, ironically came about through the market demand on gilts. Then the Bank somewhat attempted to maintain this trend of lower long-term interest rates.

On 3 January 1963, the Bank Rate was reduced from 4.5 per cent to 4 per cent. This was predicted to provide further reduction of long-term interest rates. Although momentum continued towards lower rates, the Bank sought to apply the brakes. O'Brien analysed that this lowering in long-term interest rates would create capital gains.[314] This would be more acceptable to the public than an equity boom with increase in interest rates. He also pointed out a fall in home

---

[310] BoEA, C40/1160, Whittome to Cromer and O'Brien, 16 October 1962, and T326/40, Whittome to Radice, 17 October 1962.
[311] TNA, T326/111, Goldman to Radice, 6 March 1963.
[312] TNA, T326/40, J. C. R. Dow to Sir Alec Cairncross, Prospective Economic Developments and the Possible Effect on Bond Rates, 19 October 1962.
[313] TNA, T326/40, Radice to Crift, 28 November 1962.
[314] BoEA, C42/7 and TNA, T326/111, O'Brien to Sir Denis Rickett, 27 February 1963.

mortgage costs and increase in expenditure from capital gains would be favourable in the eyes of the public.[315] O'Brien asserted that drastic reduction of rates could cause the paradoxical outcomes of supporting or disturbing the market outlook which would weaken the position of gilt-edged securities. He also suggested that visible target setting should be avoided as it would be 'conspicuous' if the Bank attempted to stabilise the weak market. Therefore, O'Brien resisted further commitment to lowering interest rates.[316] In March, the Treasury and the Bank agreed to pull the long-term interest rates back from 5.75 per cent to 5.5 per cent. While its rates reached approximately 5.25 per cent, the Bank had been 'net sellers'.[317] Cromer expressed his view,

> their agreement early in March to try and bring down the long rate from its then level of 5.75% did not postulate a specific figure like 5.5% at which it should be held. I said my understanding of our agreement was that if and when the rate had been brought back to 5.5% we would consider the matter further.[318]

---

[315] The argument of O'Brien over the correlation between public opinion, the mortgage burden and capital gains shares the foundation of the current debate around the 'home-owning democracy' in the context of welfare states. For the influence of home ownership on social spending and taxation policies see, Francis G. Castles, 'The Really Big Trade-off: Home Ownership and the Welfare State in the New World and the Old', *Acta Politica*, Vol.33, No.1, 1998, pp.5-19, and Jim Kemeny, ''Home ownership and privatization', *International Journal of Urban and Regional Research*, Vol.4, No.3, September 1980, pp.372-88. It is argued that residents living in their own properties would have a strong interest in housing policies and tend to be strong advocates of budget austerity. This argument is revised and interpreted for the current context by Herman M. Schwartz and Leonard Seabrooke,'Varieties of Residential Capitalism in the International Political Economy: Old Welfare States and the New Politics of Housing', in Herman M. Schwartz and Leonard Seabrooke (eds.), *The Politics of Housing Booms and Busts* (Basingstoke: Palgrave Macmillan, 2009), pp.1-27.

[316] BoEA, C42/7 and TNA, T326/111, O'Brien to Sir Denis Rickett, 27 February 1963.

[317] TNA, T326/111, Radice to Goldman, Long Term Interest Rates, 7 June 1963.

[318] TNA, T326/111, Goldman to Rickett, Talk With Governors on Wednesday 12 June, 12 June 1963.

Therefore, the Bank accepted neither the firm target rates nor further commitment required by the Treasury. Rather, the Bank had been playing the role of the brakes in the low interest rates era and used this agreement to increase long-term interest rates.

In early 1964, discretion over control of short-term interest rates by the UK Treasury and the Bank was suppressed due to an impending increase in Federal Reserve discount rates and the co-ordination of short-term interest rates became vital. Concomitantly, international monetary co-ordination affected domestic politics. One of the prominent examples of this co-ordination or coalition was seen when Prime Minister Alec Douglas-Home, succeeding Harold Macmillan, informed the Chancellor that Lyndon Baines Johnson, the US President, expressed his concern over the possible increase in the Bank Rate.[319] The President told the Prime Minister not to increase the Bank Rate by one per cent rather than 0.5 per cent due to substantial unemployment, underutilised industrial capacity and the absence of inflationary pressure. In order to avoid this 'unpalatable choice' of either defending the dollar or expanding the domestic economy, the President put direct pressure on the UK government.[320]

The Chancellor maintained that he advocated the course of a one per cent increase, which would create 'elbow room' in the UK Budget.[321] On 27 February 1964, the Prime Minister held a meeting with Walter Heller, Chairman of the

[319] TNA, PREM11/4772, Prime Minister's Personal Telegram to the Chancellor of the Exchequer, 12 February 1964.
[320] TNA, PREM11/4772, Prime Minister's Personal Telegram, private wire from the US President to the Prime Minister, 25 February 1964.
[321] TNA, PREM11/4772, Prime Minister's Personal Telegram from the Chancellor of the Exchequer, 13 February 1964.

CEA.[322] Heller argued that a one per cent increase in the Bank Rate would provoke repercussions for the US foreign reserves and become a 'comfort' to William McChesney Martin, Chair of the Federal Reserve, and 'the other hard-money men in the United States'. This, Heller stated, would have a harmful effect on the US economy. It is clear that the co-ordination of interest rates both in the UK and the US did not only aim to adjust the burden sharing of the balance of payments, but also both governments had intrinsic domestic political problems to tackle.[323] The UK, under the Douglas-Home government, tried to expand the scale of the budget prior to the general election in 1964. On the other hand, the US side, particularly the CEA, sought to suppress interest groups that pursued maintaining confidence in the dollar, and would potentially become a significant impediment for tax reduction or expanding the budget.[324]

As a result of these discussions, even with significant pressure from the US, the Prime Minister did not change his course to increase the Bank Rate from 4 per cent to 5 per cent in February 1964. This co-ordination and collision of the US and UK over short-term interest rates was inherited by the succeeding Labour government.[325]

---

[322] TNA, PREM11/4772, Note for the Record, 27 February 1964.
[323] For this argument, also see chapter 2 of this thesis.
[324] These conflicts between the CEA and the Federal Reserve with the US Treasury, over the dichotomy of expansive economic policies or maintaining the value of the dollar, were seen in the international monetary field. Under the Kennedy administration, during the process of the formation of the gold pool and Federal Reserve swap lines between 1962 and 1963, the initiative of managing the US economy and the currency was gradually taken by the Federal Reserve and the US Treasury. See chapter 2 of this thesis. The Exchange Stabilization Fund (ESF), established in 1961, was conducive to expanding the influence of the Treasury and Federal Reserve over currency and economic management, away from Congressional control. See Bordo, Humpage and Schwartz, *Strained Relations*, p.15. Meltzer, *A History of the Federal Reserve*, pp.348-57.
[325] There are numerous anecdotes that while leader of the opposition, succeeding Prime Minister Harold Wilson visited President Johnson and

3.6 Conclusion

It is evident that the UK government sought to exert influence on the structure of interest rates, particularly under Prime Minister Harold Macmillan, who intermittently attempted to lower long-term interest rates. Through direct manipulation in lowering long-term interest rates, Macmillan sought to stimulate business investment, easily finance local authorities and spur building societies to lower mortgage rates. UK authorities, such as the officials of the Treasury, also explored the practicality of employing an increase in short-term interest rates through two-tier rates, providing higher interest rates for foreign depositors in order to attract foreign funds. This move can be argued as one endeavour to conquer the 'stop-go' stalemate and can be considered the UK's version of 'Operation Twist'. While UK authorities, supported by the Bank, succeeded in setting concessionary interest rates for exporters rendered from the clearing banks and insurance companies, other aspects of 'Operation Twist' such as debt management policies and two-tier interest rates were discarded.

The attempts by Prime Minister Macmillan to develop a structure of interest rates were fettered, and subject to a backlash from the Treasury and the Bank. These institutions perceived potential disarray of the gilt-edged market, recurring inflation and the outflow of foreign reserves caused by the artificially established structure of interest rates. These institutions sought to maintain the financial supremacy of the City, and above all there existed a recusant attitude of the Bank towards direct market intervention by the government. When the

promised not to devalue sterling so as not to put great pressure on the dollar. Moreover, when Wilson became Prime Minister, he sent a telegram to Johnson stating that the UK would manage its interest rates according to the US economic situation, in *Foreign Relations of the United States*, 1964-68, Vol.XII, Doc. 233, Prime Minister Wilson to President Johnson, November 19 1964.

Bank and Treasury agreed to control the long-term bonds rate within 5 and 5.5 per cent, the Bank used this rate to stabilise the gilt-edged rate. Subsequently, Cromer retracted the agreed rates and rejected any further coercive target rates imposed by the government.

Furthermore, regional or free market international institutions, through which the UK government aggrandised in the world market, placed constraints upon the UK's own policies. The GATT or EFTA, which regulated and prohibited governmental provision of subsidies to companies, forced the UK to relinquish direct promotion of export finance, thus locking it into the path leading to a scheme not managed through direct manipulation but conducted within the market.

As a result of the political manoeuvres between the Prime Minister and the Treasury, with involvement of the Bank, the forged scheme subsequently fell into the hands of the Bank, to be conducted within the market. One of the primary examples of this were the Governor's Technical Device and forward exchange market operation, which would be conducted at the discretion of the Bank. In terms of debt management policies, the Bank and Treasury pursued keeping costs of public finance low and demand for gilt-edged securities high as their primary objectives, rather than mobilisation of the structure of interest rates to manage the economy.

Concerning the causal factor behind the limited acquisition of Macmillan's aim, it can be argued that this partly hinged on the configuration of the UK's political structure. The Prime Minister failed to secure concession from the Bank and the Treasury over the manipulation of long-term interest rates partly due to the absence of an institution to counteract or balance them. As existing research has already delineated, in the US, the CEA under the Kennedy administration was in perennial competition with the Federal Reserve and the US Treasury, which aimed to repudiate Congressional influence over international monetary co-ordination, thus forming a balance.[326] When Prime Minister Macmillan faced a backlash from the Treasury and the Bank, he sought the means to counteract against them, however, he had no effective options to employ.

Regarding the link between policies and theory, the ideas of officials within the political process affected the formation of monetary policies. UK officials did not adopt the Radcliffe Committee report's components of the interest incentive effect and 'general liquidity effect', nor the portfolio rebalancing theory. This was intrinsically and inextricably intertwined with institutional factors. In addition, these ideas were connected with institutional market factors including lending customs. When officials considered the impact of change in the structure of interest rates, they paid significant heed to the institutional aspect. Decrease in long-term interest rates was considered not directly influential on lending rates of building societies and clearing banks due to their lending customs and institutionalised structure. Furthermore, it should be noted that the condition of UK's gilt-edged market was a causal factor behind the determined policy course. There is no doubt that, for the Bank, the 'depth' of the long-term bond market was not enough to manipulate the structure of interest rates.

As explored above, the UK government could not fully manipulate interest rates due to the interplay of a range of factors: its domestic political structure; the ideas of officials somewhat reflecting social demand; indigenous institutional factors within the financial market including the gilt-edged market; the need for

[326] For a detailed account, see chapter 2 of this thesis.

favourable conditions for financing government and local authorities; and consideration of the currency position in the international economy.

Chapter 4: Management of sterling and tax reform in the 1965 budget: political economy of the introduction of corporation tax and direct capital controls

4.1 Introduction

This chapter examines a key aspect of currency management neglected in existing research: the correlation between the 1965 budget and the management of sterling.

On 15 October 1964, Labour won the general election by a hair's breadth and Harold Wilson had become Prime Minister of the UK. However, his triumph was marred by turmoil that emanated from the international financial market. Just two weeks after Labour's victory, on 26 October, the balance of payments deficit would be announced, forecasting a colossal £800 million for 1964. This announcement was followed by the release of the slightly stringent autumn budget on 11 November.[327] Scepticism ensued surrounding the tumultuous market and the 'sterling crisis' – or 'sterling crises' – was triggered.[328]

---

[327] Scott Newton, 'The two sterling crises of 1964 and the decision not to devalue', *The Economic History Review*, Vol.62, No.1, 2009, pp.73-98. Oliver, 'The Management of Sterling, 1964-1967', p.589. Charles A. Coombs, *The Arena of International Finance* (New York: John Wiley & Sons, 1976), p.113.

[328] There is discrepancy between Newton and Oliver as to whether the 'sterling crisis' emerged once or twice from October to November 1964. Newton, 'The two sterling crises of 1964 and the decision not to devalue', and Michael J. Oliver, 'The two sterling crises of 1964: a comment on Newton', *The Economic History Review*, Vol.65, No.1, 2012, pp. 314-21. If the broad definition of currency crises by Bordo, MacDonald and Oliver of a market-based attack on the exchange value of a currency accompanied by devaluation including a

The Labour government attempted to withstand this whirlwind with a credit of $3,000 million from the central banks of 16 countries and the Bank for International Settlements (BIS); a rise in the Bank Rate from 5 per cent to 7 per cent, and the introduction of an import surcharge 'as a radical measure, in breach of international trade agreement'.[329] Despite these measures, the government required a new scheme to manage the balance of payments deficit and its foreign reserves. However, international constraints hindered monetary policy. The UK government and the Bank faced difficulties in manipulating the Bank Rate due to significant pressure from the US government to keep rates low, the maintenance of which aimed to underpin the value of the US dollar and

---

change in the peg and international bailout, is assumed, the difficulty emerges that the process of seeking international support under the outflow of foreign reserves should be deemed part of the currency crisis. Michael D. Bordo, Ronald MacDonald and Michael J. Oliver, 'Sterling in Crisis, 1964-1967', *European Review of Economic History*, Vol.13, 2009, pp.437-59. There is also controversy surrounding the definition of crisis, however, 'sterling crisis' is used in this paper for the sake of argument. For recent definition of currency, sovereign and bank crises, see Luc Laeven and Valencia Fabian, 'Systemic Banking Crises Database: An Update', *IMF Working Paper,* No. 12/163, 2012. This classification is still problematic in that it does not define the 'credit crisis' that emanated from the Lehman Shock of 2008.

[329] Jim Tomlinson, *The Labour Governments 1964-1970: Economic Policy, Volume 3* (Manchester: Manchester University Press, 2009), p.50. For the process of introducing the import surcharge, see Richard Roberts, ''Unwept, unhonoured and unsung': Britain's import surcharge, 1964-1966, and currency crisis management', *Financial History Review*, Vol.20, No.2, 2013, pp.209-29. From the theoretical point of view, many economists held that the import surcharge or general taxation on imports and subsidies on exports would have disturbing effects on each sector, branch and eventually on the whole market. There was great concern surrounding the import surcharge and it was opposed not only in the political arena but was also criticised by economists. This doctrine, the 'comparative advantage' of David Ricardo, still holds a dogmatic position within mainstream economics. See, Gottfried Haberler, 'Appendix: Taxes on Imports and Subsidies on Exports as a Tool of Adjustment', in Robert A. Mundell, and Alexander K. Swoboda (eds.), *Monetary Problems of the International Economy* (Chicago: The University of Chicago Press, 1969), pp.173-9. Also see David Ricardo, *On the Principles of Political Economy and Taxation* (New York: Dover Publications, 2004), originally published in 1817, chapter 28.

avert the breakdown of the Bretton Woods system.[330] Therefore, devaluation and the mobilisation of monetary policy proved a difficult path for the Labour government to pursue.

In contrast to the monetary measures, Labour's incomes policy, the raising of taxation and direct price controls, such as hire-purchase restrictions, were considered effective means to ameliorate the balance of payments and ward off inflation.[331] However, in the field of direct regulation on prices and incomes, the import surcharge was not considered a permanent and reliable measure for management of domestic demand due to the firm opposition of members of the international monetary community, such as the International Monetary Fund (IMF).[332] This led the Labour government to seek alternative measures in order to tackle the balance of payments deficit.

In this situation, Labour pushed its first tax reform of the 1965 budget, two of the main features of which were the introduction of corporation tax and the renewal of the capital gains tax. Assessment of these two taxations is diverse in existing research. One group of arguments emphasised that these tax measures encompassed the aims to modernise the UK economy and

---

[330] For the pressure from the Johnson administration on the UK government over the UK interest rates, see chapter 3 of this thesis. For the attitude of officials of the Johnson administration towards the UK Bank Rate and the decision not to devalue, see Schenk, *The Decline of Sterling*, pp.157-8. For Wilson's statement to Johnson on controlling the UK Bank Rate according to the US economic situation, see *Foreign Relations of the United States*, 1964-68, Vol.XII, Doc. 233, Prime Minister Wilson to President Johnson, November 19 1964. See also William Davis, *Three Years Hard Labour: The Road to Devaluation* (London: Andre Deutsch, 1968), p.6. Henry Brandon, *In the Red*, pp.17-8, 60.

[331] Cairncross, *Managing the British Economy*, p.243.

[332] The import surcharge was also widely opposed in the international monetary community as such measures were against General Agreement on Tariffs and Trade (GATT) regulation. TNA, T171/ 801, EAC (65) 4, Economic Assessment Committee, Balance of Payments Prospect to end 1966,16 February 1965.

encourage export in order to reduce the balance of payments deficit.[333] Echoing this argument, Pemberton asserted that the objective of Labour's tax reform was to achieve economic growth, and that this taxation was the product of the growth advocacy network with influential power within the political process.[334] In addition, it is supposed that the general principal aims of corporation tax were to raise revenue and distribute resources, influencing financial flow through incentive effects.[335] This group of arguments focused heavily on the economic impact of corporation tax.

On the other hand, there are accounts from the political point of view. Pemberton stated that corporation tax was formed to convince the trade unions to accept incomes policy.[336] Meanwhile, Whiting analysed the 1965 budget in the context of the development of 'socialist' taxation. He emphasised that the aims of the 1965 budget, including capital gains tax, were to tackle tax avoidance and create greater equality.[337]

Issues remain in these assessments from the political perspective on the 1965 budget. Regarding the link to incomes policy, when Labour won the general election in 1964, incomes policy was a prerequisite measure for the Bank, Labour government and US monetary authorities (such as the Treasury)

---

[333] Tomlinson, *The Labour Governments*, pp.51, 97, 204. Martin Daunton, *Just Taxes: The Politics of Taxation in Britain, 1914-1979* (Cambridge: Cambridge University Press, 2002), chapter 9. Richard Whiting, *The Labour Party and Taxation: Party Identity and Political Purpose in Twentieth-Century Britain* (Cambridge: Cambridge University Press, 2000), pp.159-62. Ann Robinson and Cedric Sandford, *Tax Policy-Making in the United Kingdom: A Study of Rationality, Ideology and Politics* (London: Heinemann Educational Books, 1983).

[334] Hugh Pemberton, *Policy Learning and British Governance in the 1960s* (Basingstoke: Palgrave Macmillan, 2004), chapter 6.

[335] Mervyn King, *Public Policy and the Corporation* (London: Chapman and Hall Ltd, 1977), p.44.

[336] Pemberton, *Policy Learning;* James Callaghan, *Time and Chance* (London: Collins, 1987), chapter 6.

[337] Whiting, *The Labour Party and Taxation*, p.161.

for managing the UK foreign reserves and currencies.[338] However, as it will be detailed below, Labour's original plan for corporation tax, aimed partly at pacifying the trade unions for tightened incomes policy, faced significant political backlash from the Bank as a representative of the interests of the financial market. This contributed to the deviation of corporation tax and capital gains tax from Labour's original proposal. This inevitably leads to the question of why the Bank, which strongly insisted on incomes policy, opposed the introduction of a corporation tax designed to reconcile the trade unions to accept incomes policy.[339]

Reconsideration should also be made of the evaluation of the 1965 Labour budget as an attempt to tackle tax avoidance and to achieve 'fair' distribution of wealth. The tax reform of the 1965 budget saw a reduction in corporate taxation, continuing the trend evident since the end of World War II for the shrinkage of its proportion of whole tax revenue.[340] Of great importance here is to solve the puzzle of why and how the 'socialist' taxation of the 1965 budget preserved the longevity of reduction in corporate taxation. Therefore it is necessary to revisit the introduction of corporation tax and long-term capital gains tax through analysis of the discussion of the period revealed in governmental and Bank documents.

---

[338] It is highlighted that in August 1965 Henry Fowler, US Secretary of the Treasury, strongly advised Callaghan that a wage freeze was necessary to curb inflationary pressure and restore the credibility of sterling. See Schenk, *The Decline of Sterling*, p.165.

[339] Cairncross, *Managing the British Economy* also delineates the influence and resistance of the Bank concerning the tax reform. Pemberton also considers this aspect. See Pemberton, *Policy Learning*, chapter 6.

[340] For the reduction of the corporation tax rate, see King, *Public Policy*, pp.258-9. For the proportion of corporate taxation in the overall tax receipts, see Hugh Pemberton, 'A Taxing Task: Combating Britain's Relative Decline in the 1960s', *Twentieth Century British History*, Vol.12, No.3, 2001, p.358.

Prior to this, it is useful to describe the difference in arguments amongst historical, political and institutional approaches. In the context of politics or historical institutionalism, numerous commentators have mentioned that the political structure of the UK, in particular 'adversarial' politics, represented a significant driving force behind Labour's fiscal policies, including the various taxation measures.[341] Pemberton argued that:

> Britain's tradition of adversarial politics made both the Conservative and Labour parties extremely wary of specific commitments on tax. This wariness translated into a reluctance publicly to discuss tax policy and, in the case of Labour even inhibited internal discussion within the party.[342]

However, in contrast to the assertion of Pemberton, Whiting argued that 'party competition, in so far as it was based on the Labour Party claiming to do better what the Conservatives had acknowledged to be necessary, therefore paved the way for the 1965 budget'.[343] In line with Whiting, Daunton stated:

> the adversarial nature of the two-party system meant that during the period of alternative governments of the 1960s and 1970s policy was incoherent rather than consensual […] As a result, the fiscal system

[341] For an examination of adversarial politics, see S. E. Finer, 'Adversary Politics and Electoral Reform', in S. E. Finer (ed.), *Adversary Politics and Electoral Reform: Collected Essays* (London: Wigram, 1975), pp.3-34. Finer's examination of adversarial politics has influenced research that focuses on the link between political structures and policy outcomes.

[342] Pemberton, 'A Taxing Task', p.373. In line with Pemberton, Steinmo quotes David Butler and Richard Rose: 'the Labour Party had shied away from making any specific tax pledges in the run up to the election of 1964 because, it was believed, their tax promises had cost them votes in the 1959 election', David Butler and Richard Rose, *The British General Election of 1959* (London: Macmillan, 1969), pp.61-62, cited in Steinmo, Sven, *Taxation and Democracy: Swedish, British and American Approaches to Financing the Modern State* (London: Yale University Press, 1993), p.152.

[343] Whiting, *The Labour Party and Taxation*, p.155.

> which once seemed a source of stability and national pride now seemed a source of inflexibility and a cause of low growth compared with other countries.[344]

Furthermore, Prasad focused on the international divergence and convergence of fiscal policies in the neoliberal era, arguing that ‘these adversarial structures opened a space for an electoral appeal based on neoliberalism in the United Kingdom and United States when the socioeconomic transformation of the post-war period moved the majority of voters from one side of the adversarial divide to the other’.[345]

While Pemberton’s arguments are permeated with the idea of adversarial politics fostering almost identical policy on both sides of the chamber, Prasad insists that the very same adversarial politics encouraged parties to produce ambitious, diverse policy. On the other hand, according to Whiting, ‘party competition’ encouraged and forged the ideology of Labour’s taxation, while Daunton assessed that adversarial politics caused ‘incoherent’ policy and ‘inflexibility’. These incongruent arguments can be summarised as reflecting differences in understanding of the transitional period from Butskellism, which refers to the contiguity between the Conservative reformers under the influence of Rab Butler, and the right wing of Labour, to the emergence of Thatcherism rebelling against Labour and the old Conservatives. To re-examine both arguments it is necessary to shed light upon, and add to, the understanding of historical continuity and disconnection in the process of taxation policy formation under the Labour government in 1965.

---

[344] Daunton, *Just Taxes,* p.17.
[345] Prasad, *The Politics of Free Markets*, p.33.

To clarify the above continuity and disconnection, and to investigate the objectives of 1965 tax reform in the context of currency management, the fabric of the budget formation process requires untangling, and light should be shed on the inextricable link between the management of sterling and the 1965 budget. Pemberton has already examined the historical process of introducing corporation tax and long-term capital gains tax, however, his research lacks the perspective of currency management which can be gleaned from analysis of documents held by the Bank.[346] Therefore, this chapter will focus on the interconnection between the management of the currencies and fiscal measures, describing how their principal aims were distorted and driven in the dynamic political process. In addition, this chapter also examines the connection between the corporation tax and direct capital controls, which were focused upon by government officials in the process of 1965 tax reform.

4.2 The scale of the 1965 budget, and corporation tax under the balance of payments crisis

The initiative for the formation process of corporation tax was taken by James Callaghan, Chancellor of the Exchequer.[347] On 4 January 1965, Sir William Armstrong, Permanent Secretary to the Treasury, reported that Callaghan would make tax proposals, and emphasised that tax reform arrangements were

[346] Pemberton, *Policy Learning*, chapter 6. Pemberton, 'A Taxing Task'. Hugh Pemberton, 'Taxation and Labour's Modernisation Programme', in Glen O'Hara and Helen Parr (eds.), *The Wilson Governments 1964-1970 Reconsidered* (London: Routledge, 2006), pp.118-35.
[347] TNA, T171/1340, Note of a Meeting held in Sir William Armstrong's room, Monday 4 January 1965, 3:00 p.m.

under the Chancellor's 'centralized' personal control.[348] The consultation surrounding many outstanding issues such as corporation tax, capital gains tax, the exemption of gilt-edged securities and the treatment of overseas income was delegated to the Treasury. The main objectives of corporation tax publicly stated by Callaghan were to modernise the tax system, remove anomalies and incentivise the reversal of overseas investment outflow.[349] The latter objective is marginalised in existing research. Pemberton considered this tax reform in 1965 as affected by the 'growth advocacy network', placing significant pressure on the government to create policy that could achieve economic growth with higher government expenditure, without raising taxes.[350] However, as it will be proven below, the fact that the deep-seated sterling crisis significantly affected corporation tax formation cannot be neglected.

On 16 February 1965, the forecast of the balance of current and long-term capital deficits was estimated at £350 million for the next full year, with several optimistic assumptions, including a sound international financial condition and effective fiscal and monetary measures.[351] Furthermore, in the Chancellor's meeting on the domestic economic outlook, it was assumed that this deficit had

---

[348] Ibid.
Steinmo argued that this British feature, the concentration of decision making-power, was one of the significant causal factors of failure to accomplish institutional reforms. Steinmo, *Taxation and Democracy,* p.145.
[349] Hansard, Written Answers (Commons) of 27 November 1964, Series 5, Vol.702. TNA, PREM13/273, Chancellor's answer to Lubbock's question, attached to Ian P. Bancroft to Derek J. Mitchell, 27 November 1964.
[350] Pemberton, *Policy Learning*, chapter 6.
[351] TNA, T171/ 801, E. A. C. (65) 4, Economic Assessment Committee, Balance of Payments Prospects to end 1966, 16 February, 1965. These assumptions were as follows: (1) The import surcharge would be reduced to 12.5 per cent at the end of March, and then decrease to 10 per cent during 1966. (2) The Bank would cut the Bank Rate to 5 per cent by the beginning of 1966. (3) The credibility of sterling would return to a neutral position. (4) The long-term measures would exert a revitalising impact on economic performance. (5) Incomes policy and reviews of government expenditure would not have a great impact on the balance of payments in 1965. (6) Allowance was not made for corporation tax effects on overseas investment and earnings.

the potential to expand to £400 million in 1966 without the import surcharge.[352] Following this estimation, however, scepticism of the heavy demand growth of investment was expressed. Within this meeting it was suggested that fixed investment would surge over the next year, and would swallow approximately 40 per cent of augmentation in output. Consequently, the committee put forward an increase in the tax rate to abate escalating demand as the 'best solution', targeting the consumer goods market.[353] It was then suggested in the meeting that the additional tax of £250 to £300 million, this figure placed 'economic effect' at £200 million and regulator at £100 million, would be collected as motor vehicle duties, National Insurance contributions and higher duties on tobacco and alcohol. This can be understood as presenting similar measures to 'stop-go' policy.[354]

The above measures were deemed necessary to improve the balance of payments deficit. On 23 February, the government was urged to take immediate action to eradicate the deficit.[355] Sir Alec Cairncross' paper, with revisions by the Economic Assessment Committee, asserted that a wide range of measures to improve the balance of payments had been exhaustively considered over the preceding months. These measures had targeted the capital balance, focusing on encouragement of export and hindrance of demand through raising costs. The paper asserted that these measures 'have had to be rejected and others

[352] TNA, T171/ 801, C.M (65) 11, Chancellor's Meetings, the Domestic Economic Outlook in 1965 and 1966, 17 February 1965. This meeting concluded that although the import surcharge was still effective, the effects of the measures of the previous autumn to raise direct tax rates and National Insurance contributions remained unclear.
[353] TNA, T171/ 801, C.M. (65) 13, Chancellor's Meetings, The Scale of Budgetary Action, 19 February 1965.
[354] Ibid.
[355] TNA, T171/ 801, C.M (65) 12, Chancellor's Meetings, Revised Paper on the Economic Outlook Note by the Secretaries, 23 February 1965.

seem unlikely to make a substantial contribution.'[356] In addition, this paper pointed out the impact of eventual debt repayment on Labour's policy and there was concern over whether further international bailout would come forth. The paper concluded that 'if we wish to avoid devaluation, we can hardly avoid policies of a harsher and less acceptable kind', and the import surcharge combined with higher taxation was considered imperative due to uncertainty surrounding the effect of corporation tax on the capital account.[357] At this stage, the Chancellor's meeting showed perception of the necessity to mobilise fiscal measures in order to tackle the balance of payments deficit, with schemes such as raising tax rates and checking aggregate demand.

In line with the above conclusions, Sir William Armstrong advocated tax increase.[358] According to the estimate of Sir Alec Cairncross, the import surcharge would reduce the balance of payments deficit by £150 million in 1966. However, Sir William Armstrong still considered an increase in taxation of between £200 and £300 million necessary, with £250 million thought most appropriate.[359] Armstrong also expressed his concern over potential borrowing from the IMF in the summer of 1965 to re-finance the short-term credits. He asserted,

> we cannot ignore the views of creditors and the I.M.F. itself. The Chancellor is aware that the conclusion of Working Party No. 3 - in effect

[356] Ibid.
[357] Ibid.
[358] TNA, T171/ 801, Sir William Armstrong to Ian Bancroft, 25 February 1965.
[359] The proposed fiscal and monetary measures were as follows: (1) An increase in the top rate of purchase tax to between 30 per cent and 30 and one third per cent, with the effect predicted at between £70 to 100 million. (2) An increase in vehicle excise duties from £15 to £25 a year, abolishing tax allowances for National Insurance contributions, tobacco and alcohol duties. (3) Hire purchase restrictions. (4) Cuts in military expenditure.

> of our creditors - is that further action to restrain internal demand to the extent of "several hundred million pounds" is required[360]

It is clear that the Labour government faced a significant challenge to determine taxation policies that would satisfy the demand of international organisations such as the IMF and the Organisation for Economic Co-operation and Development (OECD) for a deflationary budget.

Labour was also exposed to direct pressure from the IMF. On 3 February 1965, Callaghan met Pierre-Paul Schweitzer, Managing Director of the IMF, whose attitude was described as 'undeniably firm'.[361] Schweitzer insisted that the reduction in the import surcharge should be accompanied by deflationary measures such as hire purchase restrictions, credit squeezing and a tougher budget, while he valued the progress on incomes policy as an effective measure and did not regard devaluation as a feasible solution.[362] Schweitzer also warned that the UK required a tough deflationary budget to obtain a further fund drawing of a £1,000 million 'play safe', and that it would be difficult to secure funds prior to the announcement of the budget.[363] Consequently, he urged Callaghan to send a 'nice little letter' to the IMF about the UK's policies to increase the chances of further borrowing.[364] Derek Mitchell, Principal Private Secretary, reported Schweitzer's warning that

---

[360] TNA, T171/ 801, Sir William Armstrong to Ian P. Bancroft, 25 February 1965.
[361] TNA, PREM13/239, Derek J. Mitchell to Ian P. Bancroft, 3 February 1965.
[362] TNA, T171/ 801, Note for the Record of discussion on 3 February 1965 between the Chancellor and Managing-Director of I.M.F by Ian P. Bancroft, 3 February 1965.
[363] TNA, PREM13/239, Derek J. Mitchell to Ian P. Bancroft, 3 February 1965.
[364] Ibid.

> there was little chance of any success with an initiative on international liquidity this year. This was partly because of the reluctance of the United States to move during the period when Dillon's successor and Roosa's would be finding their feet. But he mentioned European resistance also and added that there was no hope in the near future of any conceivable increase in liquidity that could help the United Kingdom. At this point the Prime Minister and the Chancellor emphasised strongly that H.M.G. were looking to long-term needs and were not motivated by self-interest.[365]

The Labour government faced a similar demand not only from the IMF, but also from Working Party No.3 of the OECD. Emiel van Lennep, Chairman of Working Party No.3 of the Economic Policy Committee, urged Sir Denis Rickett, Second Permanent Secretary to the Treasury, to remove the temporary import surcharge and take other forms of deflationary measures. As his conclusive remark, Lennep stated:

> The Working Party urges upon the United Kingdom the importance of using the occasion of the coming budget to present in public a policy for the balance of payments, which would show how a surplus would be restored without the surcharges, so that medium-term international support could be repaid within a reasonable term of years [...] The room for manoeuvre is very narrow, and it is essential to avoid any risk of the measures taken to correct the balance of payments proving, in the event, insufficient.[366]

It is evident that the IMF, OECD and Cairncross held a similar notion to prompt a deflationary budget in order to secure and retain accessibility to the IMF drawing and its fund.

---

[365] Ibid.

[366] TNA, T171/ 801, Emiel van Lennep, Chairman of Working Party No.3 of the Economic Policy Committee to Sir Denis Rickett, 18 February 1965. Working Party No.3 was an organisation of the OECD, which dealt with monetary matters such as foreign exchange, and sought international arrangement for the balance of payments issue.

Internal and external pressure surrounding the budget intensified when, on 15 March, Callaghan held an informal meeting with Chief Secretary of the Treasury John Diamond, Sir William Armstrong, and Economic Advisor Robert Neild to discuss the budget.[367] In this meeting, Callaghan rebuked Armstrong and Neild's assertion that the scale of the tax increase in the 1965 budget should be more than £200 million for a full year. Callaghan insisted that their argument underestimated the impact of a budget rise of £200 million on business confidence, stating that 'the effects of such action on a Party which was dedicated to economic growth might be far reaching' and he, with the Prime Minister, reached the conclusion that it would yield £180 million in a full year and approximately £135 million in 1965-66.[368] Concerned with possible discouragement of business investment, Callaghan attempted to refuse large-scale budget cuts or tax increase. Regarding cuts in fiscal spending, Callaghan had stated his commitment to the cancellation of the TSR2 aircraft project before announcement of the budget, and made clear the necessity to take measures to provide a convincing demonstration that the government was taking meaningful steps to tackle the balance of payments deficit.[369] He concluded that 'all related to a determination to grip the capital account by means of the corporation tax and the other measures which were now in process of agreement, could be regarded as presenting a credible programme', and he was prepared to run the risk of possible difficulties in consultation with the IMF when it came to securing funds.[370]

---

367 TNA, T171/ 801, Note for the Record of the Chancellor's informal meeting, 15 March 1965.
368 Ibid.
369 Ibid. Cuts in military expenditure were estimated at £50 million.
370 Ibid.

It is apparent that whilst under pressure from the international financial market, the Chancellor attempted to reduce the balance of payments deficit without significant tax increases or a stringent budget, which might erode Labour's 'socialist' *raison d'etre*. It is also clear that Callaghan relied on corporation tax to keep Labour distanced from a deflationary budget, and considered this taxation a measure to prove to the international financial community that the UK was embarking on the formation of effective schemes to tackle the balance of payments deficit. In this respect, the corporation tax can be understood as an appeal to the international monetary field, standing within Labour's 1965 budget as a bulwark against fierce demand for a deflationary budget. In addition, it should be noted that what the Labour prioritised in the field of fiscal policies was income transfer, including public expenditure on social security.[371]

4.3 Corporation tax and double taxation

Corporation tax, which was a main component of tax reform for Chancellor of the Exchequer James Callaghan and economist Nicholas Kaldor, was designed to be separate from income tax and to be a single flat rate tax on the profits of a company.[372] Corporation tax replaced profits tax, and income tax was imposed on individuals. Previously, company profits had been subject to income tax at 41.25 per cent and profits tax at 15 per cent, with dividends taxed at 2.5 per cent. In contrast, under corporation tax, company profits would be taxed at a flat corporation tax rate of 40 per cent. In addition, distributions in the form of

[371] TNA, CAB/128/39, C.C. (64) First Conclusions, 19 October 1964.
[372] Daunton, *Just Taxes,* p.290.

dividends would also be taxed at a flat corporation tax rate without ‘franking’, a practice at the time known as ‘non-franking’. ‘Franking’ meant that dividends paid by a company had the label of tax having been paid which eliminated further tax on the recipient of the dividends. The ‘non-franking’, double taxation on inter-company dividends in the proposed corporation tax system, was described by Whiting as a Labour tax principle forged by Nicholas Kaldor, that aimed to ‘modernise’ taxation and lead to: ‘fairness, equality and redressing the balance between rich and poor.’[373]

Whiting details a valid point, as affirmed in a letter from Kaldor to Hartle, that many in Britain in fact favoured the adoption of a corporation profits tax of the US type in place of the existing income and profits taxes. The letter states:

> I [Kaldor] personally do not regard the arguments that this involves “double taxation” of company profits as valid. Clearly unless the companies were taxed as such, the undistributed part of their profits would escape taxation altogether.[374]

It is clear that during the early stages of corporation tax policy formation, Kaldor, who had a great impact on Labour’s taxation policy, did not consider any concessions. Kaldor recognised this undistributed part of companies’ profits as a product of a loophole within the tax system, which should be closed.

Whiting and others describe the stance of Kaldor as ‘purist’ in its attitude to taxation policy, while the Treasury played the part of a ‘brake’ and Callaghan balanced the claims of both sides, conducting a form of ‘brokerage’. In his

---

[373] Whiting, *The Labour Party and Taxation*, p.172.

[374] Kaldor Papers, King’s College, Cambridge University, (henceforth, Kaldor Papers), NK/3/19/294, Kaldor to D. G. Hartle, Royal Commission on Taxation, 26 October 1964.

‘brokerage’ role, Callaghan was exposed to a backlash from the financial market amidst concerns that corporation tax would depress share values and hinder the capital market.[375] It will be proven below that it was within this dynamic of purity, caution and concern that corporation tax was born, and took the form of a flat corporation tax rate on company profits and untaxed inter-company dividends. One of the most significant objectives of the ‘socialist tax’, the ‘non-franking’ of Labour’s original proposal, would be discarded. Therefore, this tax reform introduced in 1965 can be considered somewhat of a ‘pseudo-socialist’ tax reduction on companies. Curiously, although this proposed corporation tax encompassed an aim to reconcile the trade unions to accept incomes policy as mentioned above, it remains unclear in existing research as to why financial institutions, which had previously strongly urged incomes policy, opposed corporation tax. Due to the lack of clarity in this area, this chapter moves on to examine Bank of England documents in order to shed light on the conflict between the Labour government and financial institutions, a conflict which is widely considered the most significant political backlash of the Labour taxation policy formation process.

Labour insisted that corporation tax would discourage the distribution of profits in the form of dividends and encourage investment activities.[376] However, corporation tax formation provoked debate regarding dividends, double taxation and direct investment, with controversy surrounding the taxation of inter-

[375] Whiting, *The Labour Party and Taxation*, p.162, and Daunton, *Just Taxes,* p.292.

[376] The other potential benefit of corporation tax given by the Labour government related to the incomes policy. The below report considered the corporation tax thus: ‘Psychologically this would help in the creation of an atmosphere favourable to an incomes policy, partly because of its very existence and partly because it would tend to restrict dividends and limit increases in share values: more concretely, it would stimulate growth by inciting companies to plough back profit’, in TNA, T171/ 806, Sir Alexander Johnson to the Chancellor: Corporation Tax, 6 November 1964, p.4.

company dividends quickly arising.[377] In the early stages, Labour held that 'the most important effect of the change would be to benefit companies which distributed a smaller proportion of their profits than average and to penalise companies which distributed a greater proportion.'[378] On 6 November 1964, the corporation tax proposal set out that company profits would be taxed at a flat of 40 per cent, and distribution in the form of dividends would also be taxed at the same rate. Thus, companies which distributed a smaller proportion of dividends would retain greater earnings.[379]

However, this corporation tax proposal triggered a significant political backlash. On 25 January 1965, the New Taxes Proposal of the Bank insisted that the rate of corporation tax should avoid causing uncertainty in the market. Moreover, concerning the possibility of reduced relief for overseas tax and withholding tax on dividends paid from the UK to overseas investors, it was detailed that imposition of corporation tax on 'such companies must be mitigated if damage is not to be done to the balance of payments and if London's role as a centre of international commerce is not to be impaired'.[380] Furthermore, the Bank added that if corporation tax were to be imposed on dividends, most companies would face the need to 're-arrange their capital to eliminate preference shares and replace them with loan stock.'[381] The Bank expressed its concern that the proposed corporation tax would cause disturbance within the financial market and impact companies' financial strategy

[377] TNA, T171/ 804, Sir Alexander Johnson to I. P. Bancroft: Corporation Tax and Capital Gains Tax, 7 January 1965. This report clearly expressed the pressing nature of the issue of non-franking: 'This problem [franking] is in the forefront of our minds and we shall get forward a recommendation as quickly as possible.'
[378] Ibid.
[379] TNA, T171/ 804, Corporation Tax and Capital Gains Tax, 7 January 1965.
[380] BoEA, 6A319/2, Proposed New Taxes by the Bank of England, 25 January 1965, pp.1-2.
[381] Ibid.

structure. Within the Bank there were concerns that this would inevitably have a detrimental effect on the City's presence in the global market. However, the Bank considered that many companies could not alter their capital structure, and that 'a change to a Corporation Tax may throw the whole burden of that tax on to the ordinary shareholder.'[382] From these files, two points are clear: firstly, that the Bank warned that corporation tax on dividends would affect shareholders, and secondly that it criticised corporation tax from the perspective of international financial matters, such as double taxation, which would affect the balance of payments and the City's high profile position in the arena of commerce.

Further to the above, Cromer, then Governor of the Bank, highlighted the importance of the balance of payments problem. On 22 January 1965, the governor asserted to Sir Denis Rickett that

> the attitude of the foreign central bankers was that they did not want to get into an argument with us about the sufficiency of our measures or in any way hold the pistol at our head.[383]

The Bank warned the Treasury that other central banks shared the reins of the management of sterling. On the other hand, Italo de Lisle Radice, Under Secretary of the Treasury, informed the Bank that the Treasury was in favour of

[382] BoEA, C40/1068, 1, Company Capital Structure, No.14, date unknown. From this assertion of the Bank, it is clear that the Bank did not pursue portfolio rebalancing effects, the economic theory of James Tobin. When the Conservative government sought decrease in long-term interest rates and flexible manipulation of short-term interest rates between 1961 and 1963, the Bank rejected rebalancing effects considered in the Radcliffe Committee report of 1959. For the development and orientation of the work of James Tobin within the history of economic thought and the attitude of the Bank towards portfolio rebalancing effects, see chapter 3 of this thesis.

[383] BoEA, G1/556, Conversation with Sir Denis Rickett, 29 January 1965.

mitigating the effects of corporation tax for companies trading overseas, although ministers might be inclined to listen to Kaldor who would argue against any mitigation.[384] From the above communication it is evident that the Bank and the Treasury sought to amend Labour's original corporation tax proposal. However, the Bank considered that although it had to 'argue a number of special cases of possible hardship' surrounding corporation tax, it could 'counterbalance the defensive approach that this has involved by a positive approval of the underlying aims of modernity, simplification and equity'.[385]

To support its argument that corporation tax would cause cases of 'hardship', the Bank collected statements from financial institutions and large companies arguing against the proposal, particularly statements against taxation on dividends. Moreover, arising from uncertainty concerning future corporation tax rates, the Bank was under pressure to push the government to decide the tax rate. Insistence was made that uncertainty would produce volatility in business and have an adverse effect on the UK's export trade and the balance of payments.[386]

In the midst of this political backlash from financial institutions and the Bank, on 10 February 1965, the Chancellor took the position that 'non-franking' was not the primary aspect of Labour's taxation policy, repealing the taxation on inter-company dividends:

---

[384] BoEA, G1/556, Conversation with Radice, 22 January 1965.
[385] BoEA, 6A319/2, Jeremy Morse to Deputy Governor of the Bank Leslie O'Brien, 25 February 1965.
[386] BoEA, C40/1067, Memorandum by the Finance Houses Association on the Government's Proposed Corporation and Capital Gains Tax, 13 January 1965.

> the new taxes as a whole were bound to create political difficulties, which must be faced for the sake of a more equitable and modern taxation system. But when so much was being achieved it would be a pity to risk a major political row and to slow down the Bill in Committee, by a tough decision on franking which was not one of the issues on which it was most important to make a stand.[387]

Despite the Chancellor's words, doubt surrounding this concession remained within the Cabinet.[388] Prime Minister Harold Wilson understood the Chancellor's attempt to avoid political difficulties in forming the Finance Bill. However, Wilson was 'impressed by the economic arguments in favour of taxing portfolio investment while franking income from dividends from subsidiary companies.'[389] Wilson also understood the risk associated with the Chancellor's decision, which would encourage portfolio investment and a restrictive monopoly as opposed to rationalisation of the industrial structure.[390]

Although the non-franking of dividends presented a difficult debate, by contrast, agreement regarding international double taxation was reached with comparatively limited resistance. During the opening phase of discussions, on 21 January 1965, a paper was dispatched to the Prime Minister from Thomas Balogh, Economic Advisor, on the issues of double taxation, 'non-franking' and overseas investment.[391] This paper asserted that the present system was working with the wrong incentive by encouraging capital outflow and therefore

[387] TNA, T171/804, N.T. (65) 4th Meeting, Note of a meeting in the Chancellor of the Exchequer's room, H. M. Treasury, 2:30 p.m., Wednesday 10 February 1965.
[388] TNA, PREM13/273, D. J. Mitchell to I. P. Bancroft, 16 February 1965. Thomas Balogh, Economic Advisor, also expressed his disapproval of 'franking', see TNA, PREM13/273, T. Balogh to the Prime Minister, 15 February 1965.
[389] TNA, PREM13/273, D. J. Mitchell to I. P. Bancroft, 16 February 1965.
[390] Ibid.
[391] TNA, PREM13/273, The likely effects of the new Corporation Tax, 20 January 1965, attached to letter from Thomas Balogh to the Prime Minister, 21 January 1965.

having a negative effect on the balance of payments through double taxation relief. The new corporation tax system would inhibit overseas investment by UK companies and bring in direct foreign investment, since these companies would not obtain relief on excess, and dividends would be deducted at the full standard rate. It is clear that Balogh considered a corporation tax with 'non-franking' and double taxation an effective measure to tackle the matters of the balance of payments deficit and capital outflow from the UK.[392]

However, OECD guidelines influenced the issue of double taxation within corporation tax. Under the OECD Fiscal Committee it was identified that the tax rate on dividends payable abroad should not exceed 5 per cent if the recipient owned 25 per cent of the capital of the paying company. In other cases the maximum rate was recommended at 15 per cent.[393] This limit, recommended by the OECD, influenced the decision on the issue: Cairncross noted in his Treasury diary, 'We can't put withholding tax above 5% (OECD code). Quite a bombshell!'[394] Later, in addition to this guideline, double taxation relief and the balance of payments presented a significant discussion point in a telegram from Washington to the Foreign Office, in which the US demanded the UK settle the matter of double taxation.[395] The Bank's attitude toward tax evasion arising from double taxation relief was thus: 'non-resident investment is of such importance to us that we can not afford to take too rigid or legalistic a line for the sake of

---

392 Ibid.

393 TNA, T171/806, Report from Sir Alexander Johnson to the Chancellor: Corporation Tax, 6 November 1964, and TNA, T171/804, N.T. (65) 6th Meeting, Note of a meeting in the Chancellor of the Exchequer's room, H. M. Treasury, Wednesday 18 February 1965, 4:00 p.m.

394 Alec Cairncross, *The Wilson Years: A Treasury Diary, 1964-1969* (London: The Historian's Press, 1997), p.37, 12 February 1965.

395 BoEA, OV31/92, From Washington to Foreign Office, 5 June 1965. However, the US sought to maintain a higher tax on dividends, ignoring the maximum limit of the 15 per cent rate that the OECD had advised. It can be gleaned from this that the US attempted to discourage capital outflow with higher taxation on earnings from abroad.

stopping a negligible amount of tax evasion.'[396] Officials within the Bank were mindful of the flow of funds of non-resident investment into the UK. This, with OECD guidelines and foreign pressure, affected the decision to avoid the issue of international double taxation.

Thus, it emerged as outlined above, that when Labour faced political difficulties, the proposal of 'non-franking' was discarded and the idea of international double taxation within corporation tax collapsed, causing the policies to deviate significantly from the original proposal. Following these concessions over the matter of corporation tax, the Chancellor stated:

> Without a strong balance of payments our ability to carry out an effective independent policy in such critical fields as economic affairs, foreign and defence affairs, and overseas aid would be fatally impaired. We could not continue indefinitely to borrow short in order to lend long. The imposition of the corporation tax would bring a significant relief to the balance of payments, since it would remove a bias in favour of overseas investment which was built into the present taxation system.[397]

It cannot be denied that the objectives of corporation tax were to modernise the tax system, encourage business investment and export through inhibiting the distribution of profits as dividends, to achieve a fairer tax structure, and reduce the balance of payments deficit. However, it is necessary to develop this argument to include the use of corporation tax for avoidance of a deflationary budget. The above objectives were not embodied into the established corporation tax due to the removal of 'non-franking' and the inclusion of double taxation relief. These changes were the product of OECD guidelines and

[396] BoEA, 6A319/4, UK Income Tax, US/UK Double Taxation to Sir William Armstrong, September 1965.
[397] TNA, T171/ 806, Note of a meeting held in the Chancellor of the Exchequer's room, Treasury Chambers, Tuesday 23 March 1965.

pressure from the Bank, which, as representative of the City and keen to avoid disturbance in the financial market, was in pursuit of the interests of financial industries.

4.4 Capital controls, acquisition of investment currency and reduction in foreign investment

As detailed above, the Labour government was forced to change the course of its corporation tax, which was designed to tackle the balance of payments deficit. To compensate, at least partially, for the concessions made concerning the corporation tax and the resulting shrinkage of its tax base, or to bolster the foreign reserves, Labour endeavoured to adopt a different scheme using direct capital controls and acquisition of investment currency.

On 23 February 1965, the exchange controls proposal was discussed and the agreement to take steps in this direction was reached.[398] The concrete scheme that was considered, firstly, identified the need to tighten up the criteria for official exchange in order to encourage capital inflow into the balance of payments. In addition, any investments by enterprises that satisfied the new criteria should have ‘100 per cent, and not some smaller proportion, of their requirements met from official exchange’.[399] Also, ‘accruals to the investment currency market from exempted assets […] should be diverted to the official reserve.’[400] Moreover, the agreement was reached that the Bank and Treasury

[398] TNA, T171/ 801, Conclusions of a meeting in the Chancellor of the Exchequer’s room, H.M. Treasury, Tuesday 23 February 1965.
[399] Ibid.
[400] Ibid.

‘should consult together on the possibility of the Government entering the investment currency market to purchase dollars for the reserves.’[401] Finally, consultation was also required on ‘the possibility of the imposing of a non-discriminatory tax either on purchases of foreign securities or on income flowing from such purchase.’[402] This scheme is reminiscent of the ‘Tobin tax’ idea that arose after the collapse of the Bretton Woods system in 1971: the imposition of tax on foreign exchange transactions in order to suppress speculative transactions.[403]

Cromer presented harsh criticism of the proposal for exchange controls.[404] Cromer indicated that net overseas income from foreign investment was at £670 million, therefore opposing imposition of exchange controls, which would potentially harm capital inflow from foreign investment. He added that he considered such measures of using taxation to control the balance of payments as ‘exceedingly rash’ and he expressed his doubt over

> whether enough thought has been given to the practical consequences of embarking on a regime of discriminatory taxation which (and this is not entirely incidental) would involve one of the most intrusive acts of Government into the individual’s management of his own affairs yet seen in peace time.[405]

[401] Ibid.
[402] Ibid.
[403] For the original idea of the Tobin tax and its proposal by James Tobin, see James Tobin, *The New Economics, The New Economics One Decade Older* (Princeton: Princeton University Press, 1974), and James Tobin, ‘A Proposal for International Monetary Reform,’ *Eastern Economic Journal*, Vol.4, No.3/4, 1978, pp.153-9.
[404] TNA, T171/ 801, Cromer to Sir William Armstrong, 5 March 1965.
[405] Ibid.

Cromer concluded that 'no steps should be taken, as part of any exchange control and taxation "package", which would close, or effectively dry up, the switch dollar market', referring to the investment currency market.[406] Cromer further stated that he saw this proposal as a ban on 'dealings between U.K. residents in the switch dollar market, and only to allow switches in existing portfolios', which he suggested would harm foreign opinion, as the UK would be perceived as selling sterling at a discount in order to purchase expensive dollars.[407] He continued that this would inevitably provoke speculation around the exchange parity, and would cause a decrease in dollars coming into the switch market. Conclusively, in this correspondence with Armstrong, Cromer utterly rejected the proposal for exchange controls and reduction in foreign investment, expressing his view that the switch dollar market had a significant role in keeping international earning power in the City.[408] It was recorded that Cromer expressed his concern 'about any policy decision to bring private overseas assets into reserves' and remained 'strongly against discriminatory taxation against overseas investment though he saw nothing against removing the present anomaly under which such investment was specially favoured'.[409]

In response to Cromer's outright rejection of the proposal for exchange controls, Sir Denis Rickett of the Treasury sought to reconcile the Bank by detailing two possible schemes that could be taken by the government.[410] Firstly, acquisition of investment currency by discretionary intervention in the investment dollar market, or 25 per cent of the proceeds of sale of all non-sterling securities, would be 'surrendered' to the reserves. The second scheme

[406] Ibid.
[407] Ibid.
[408] Ibid.
[409] BoEA, G1/556, Conversation with Mr Goldman, 26 February 1965.
[410] TNA, T171/ 801, Rickett to Sir William Armstrong: Overseas Investment, 12 March 1965.

consisted of the introduction of a 'specific tax', which would be imposed on income from overseas securities at a rate of 15 per cent. Rickett expressed his preference for the former scheme, and deemed the latter a somewhat dangerous measure. He stated that 'the Corporation Tax and withdrawal of relief for underlying tax will in themselves have very substantial effects both on direct capital flows and on the willingness of the U.K. investor (especially investment trust and insurance companies) to hold overseas securities', and asserted that if such a 'specific tax' were to be introduced it should be entwined with corporation tax.[411] Repeated concessions over the corporation tax by the Chancellor, who faced political backlash from the Bank, reveal corporation tax as distanced from the original proposal. Given that a taxation which would affect foreign investment was not a politically practical choice, an alternative proposal to directly control capital movement was made.[412]

The proposition for exchange controls was discussed in the Chequers' meeting, attended by Kaldor, at which the Bank and Inland Revenue were represented. It was concluded that if such measures were introduced, the 'EEA [European Economic Area] should intervene in the switch dollar market and buy switch dollars at a premium for putting into the reserves.'[413] This argument was 'violently opposed' by Roy Bridge, Adviser to the Governors of the Bank, on the grounds that that the 'market reaction could be catastrophic'.[414] Moreover, regarding the diversion to the reserves a proportion of the proceeds of overseas

[411] Ibid.
As defined by the OECD, underlying tax is the tax imposed on the income of companies, out of which dividends are paid. However, it is not constituted as a direct deduction or withholding from the dividend.
[412] The Chancellor reduced tax relief or tax credit on earnings and dividends from overseas. Cairncross, *Managing the British Economy*, p.112.
[413] BoEA, 11A45/1, Note for the Record: Outward Investment - Exchange Control - Taxation, 2 March 1965.
[414] Ibid.

sale of foreign securities, known as the ‘surrender scheme’, Roy Bridge asserted that the scheme would lead to doubts over whether sterling ‘is not a currency to get shot of.’[415] Despite these objections, Cromer expressed in a letter to Armstrong that a temporary measure to re-enforce the existing restraints on new capital investment overseas was necessary. Consequently, he compromised to ‘agree with the suggestion of equalising the level of taxation as between home and overseas investment’ and understood the need for ‘measures which are being proposed to diminish substantially new accruals to the switch dollar market.’[416] Cromer noted that should these measures be taken, the UK financial market would be unable to maintain the prestigious expertise which was known to underpin the UK’s balance of payments, regarded as a source of influence in international affairs.

The Chancellor and the Treasury reconsidered the scheme and, despite the harsh opposition from the Bank, reached the conclusion that 25 per cent of the proceeds of sales of all non-sterling securities should be surrendered to the reserves.[417] On 17 March 1965, the Chancellor and Cromer directly discussed the issue.[418] Five days later, the Chancellor and the Bank reached the agreement to put in place the 25 per cent surrender scheme.[419]

The shrinking of the taxation base of corporation tax on dividends in order to avoid double taxation and ‘non-franking’ on intercompany dividends, chiefly

---

[415] Ibid.

[416] TNA, T171/ 801, Cromer to Sir William Armstrong, 17 March 1965.

[417] TNA, T171/ 801, Note of a meeting held in the Chancellor of Exchequer’s room, Tuesday 16 March 1965, 3.30 p.m. A decision was made for the Treasury to acquire a large amount of investment currency for the foreign reserves in TNA, T171/ 801, Government Acquisition of Investment Currency, Note by Treasury, 11 March 1965.

[418] TNA, T171/ 801, Report of a meeting between the Chancellor and the Governor, 17 March 1965.

[419] TNA, T171/ 801, Minutes of a Meeting of Ministers held at 10 Downing Street, Monday 22 March 1965, 11.15 p.m.

because of the political pressure from the Bank, was considered an effective measure to tackle the balance of payments deficit by curbing foreign investment. It has been shown that after these concessions, the Chancellor via the Treasury, in particular Denis Rickett, demanded employment of an alternative measure to control the balance of payments deficit. The resulting proposed scheme of exchange controls was strongly opposed by the Bank. However, because alternate measures offered by Radice to Cromer were drastic and threatening to the presence of the City, the Bank conceded to accept the 25 per cent surrender scheme. Despite the opposition from the Bank and the evisceration of the principles of corporation tax, such as ’non-franking’, the Chancellor successfully proceeded with the implementation of direct exchange controls.

4.5 Conclusion

Financial history and the history of fiscal policies describe the budget of 1965 as ‘mildly deflationary’. The corporation tax, one of the most significant policies of this 1965 budget, is considered to have encompassed a number of objectives, such as providing an incentive effect to tackle the balance of payments deficit, foster economic growth, modernise the British tax system, prompt increase in tax revenue, encourage business investment and export, increase equality, and accomplish a fairer tax system which was a prerequisite measure to reconcile the trade unions to accept incomes policy. The accounts in existing research hold credence as the official documents clearly express these objectives. However, if focus is placed upon the link between the corporation tax and the incomes policy, this connection was not a prominent feature in the formation process of the corporation tax. In negotiations between the Chancellor and financial institutions, the Bank showed little enthusiasm for the prospect that the corporation tax that would encourage the concession of the unions over incomes policy. Rather, the Bank devoted itself to defence of the interests of the City and avoidance of potential risks associated with corporation tax which might disturb the market and unduly provoke change in the capital structure of companies.

It should not be ignored that the corporation tax functioned as a bulwark against the domestic and international pressure that insisted the government implement stringent fiscal policies and a deflationary budget. Labour faced resistance from the Bank, which attempted to defend the status of the City, and from the Treasury (accompanied by the Bank) in its pursuit of a deflationary budget in order to meet the requirements of the other central banks, the IMF and OECD. Labour sought to eschew a deflationary budget by brandishing the potential beneficial effects of corporation tax which would encourage export and in turn reduce the balance of payments deficit.

In terms of technical matters, the corporation tax proposal was exposed to a political backlash that demanded double taxation relief and feared the jeopardy of the balance of payments deficit, regardless of Labour's explanation that the corporation tax would be remedial to the foreign reserves position. It has been detailed in this chapter that concerning the effects of corporation tax on the balance of payments deficit, the perceptions of the Chancellor and the Bank were far reaching. This conflict changed the course of corporation tax policy: via rejection of non-franking on intercompany dividends, in effect, companies were subject to a reduction in corporation tax, a far cry from Labour's 'socialist' aims. On the other hand, the issue of international double taxation was amended according to OECD guidelines and demand from the Bank, which was aware of potential harmful effects on foreign investment. These conflicts and pressures existed behind the decisions that saw the 'socialist tax' pushed by the 'growth advocacy' groups resulting in a corporation tax that was favourable to corporations and the interests of financial institutions.

Having lost the levy on intercompany dividends, which was considered by the Chancellor and Kaldor as a key principle of Labour's taxation policy, and having faced further necessity to control capital flow, the Chancellor took steps to find alternate measures to tackle the balance of payments deficit. This measure took the form of direct exchange and capital controls, dubbed the 'surrender scheme', and downscaling of the tax relief on the earnings from abroad. Though the Bank strongly opposed the exchange controls measure, it finally accepted the 'surrender scheme' rather than the radical measures of direct capital controls proposed by the Treasury. Thus the Chancellor was able to successfully proceed with the exchange controls plan.

Through analysis of the 1965 budget with a focus on corporation tax policy formation, this chapter has highlighted that the argument based on political structure, the so-called adversarial party system, alone is insufficient to explain Labour's taxation in the 1965 budget. There is no doubt that, although adjusted, the tax strategy or ideology of the Labour government remained in the taxation of 1965. However, great importance also lies in the interrelation between the factors of concentrated political power in the Treasury and the Bank, and the international political economy, such as the political and economic transactions with the IMF and the other central banks. Furthermore, how politicians and decision makers conducted political transactions at this institutionalised foundation of international and domestic financial political structure cannot be overlooked. Through clarification of the political process and the development of ideas and objectives around taxation, in the context of currency management and domestic economic purposes, the influence of foreign sectors and the internal institutional power balance can be graphically described, as can the link between management of sterling and fiscal measures.

Chapter 5: Revisiting the capital gains tax of 1965: Sterling and debt management

5.1 Introduction

In the 1965 budget the Labour government initiated major tax reform, the main components of which were corporation tax and capital gains tax. After this tax reform, capital gains earned by companies were subject to corporation tax. Realised gains earned from long-term (identified as over one year) assets retained by individuals, trustees and personal representatives became subject to capital gains tax, at a 30 per cent flat rate. Other short-term gains remained subject to income tax and surtax as under the previous scheme.[420]

Existing research has analysed these main components of Labour's tax reform, however, further clarification is necessary in several areas. From the perspective of currency management, the 1965 budget is considered as 'mildly deflationary' in light of the 'quantity' or valuation amount. It is assessed that Labour was confronted with the sterling crisis that emanated from the balance of payments deficit, which arose from insufficient deflationary measures.[421]

---

[420] There were several tax exemptions and deductions. For example, the capital gains earned on pension funds were exempt from any tax. In addition, owner-occupied properties and goods worth less than £1,000 were not subject to capital gains tax. Moreover, double taxation relief was implemented between the investment and unit trusts, in current terminology open-ended or close-ended mutual funds, and the shareholders.

[421] Oliver, 'The Management of Sterling, 1964-1967', p.589, and Newton, 'The two sterling crises of 1964 and the decision not to devalue', pp.73-98.

However, arguments in existing research focusing on currency management can be assessed as lingering on superficial description of the budget. As seen in chapter four of this thesis, analysis focusing on interrelation between the management of currencies and fiscal measures is important. Corporation tax, which was initially granted the function of tackling the balance of payments deficit, was mobilised by the Labour government in order to meticulously circumvent external pressure to implement a deflationary budget. Hence, it can be assessed that corporation tax was partly for managing sterling, and that both of the above functions were inextricably intertwined and mutually affected in the budgeting process. This leads to necessity for further exploration of another facet of Labour’s 1965 budget, capital gains tax, in the context of fiscal and monetary policies, so as to clarify and deepen understanding of Labour’s sequence of demarches as dynamically linked with the management of sterling.

There is also the issue in existing research of focus on the ideological and functional aspects of Labour’s ‘socialist tax’. Labour’s 1964-5 tax reform is perceived as an approach geared towards achievement of fairness, modernisation and the rebalancing between rich and poor.[422] Regarding capital gains tax, the existing research has mainly focused on the incentive effects to distribute retained profits into business investment, and the ‘socialistic’ aspect, which targeted closure of the loophole that had allowed income through untaxed capital gains, so as to achieve ‘fairness’. Additionally, according to Pemberton, the 1965 budget, major aspects of which were capital gains tax and corporation tax, was the product of the attempt to achieve modernisation of the UK economy and its growth, and to create favourable political milieu for tougher

[422] Whiting, *The Labour Party and Taxation*, p.172.

incomes policy.[423] Meanwhile, according to documents which detail the discussion within the Labour Party, capital gains tax had embraced other potential functions and objectives, which consisted of three elements. Firstly, capital gains tax would 'prevent profits not distributed in dividends from being realised as income in the form of untaxed capital gains'.[424] The second element was to aim to increase 'the price of affected shares' through the postponement of sale.[425] Thirdly, capital gains tax would restrict dividends and encourage physical investment financed through the increase of retained profits, 'to ensure that the higher dividends were channelled into the public purse to the required extent'.[426]

Therefore, there are numerous intrinsic objectives and functions described for capital gains tax, which overarched fiscal, social, and monetary fields. How these various aims were co-ordinated and changed in the budgeting process requires exploration. For this purpose it is imperative to analyse the capital gains tax from wider perspectives, especially from the monetary point of view. Moreover, existing research has tended to focus on 'socialist tax' though combined analysis of corporation tax and capital gains tax. As seen in chapter four of this thesis, and from the above clarification, both taxes had separate purposes and functions. Therefore, in order to clarify the facet of Labour's 'socialist tax', it is necessary to reconsider what components of both taxes changed and remained, and what components Labour prioritised in the budgeting process. This inevitably requires the comparison of the historical

---

[423] Hugh Pemberton, 'Taxation and Labour's Modernisation Programme', *Contemporary British History*, Vol.20, No.3, September 2006, pp.425.
[424] Kaldor Papers, NK11/1/47-48, Labour Party, Taxation Working Party, Minutes (4), 31 January 1964.
[425] Kaldor Papers, NK11/1/58-59, Labour Party, Taxation Working Party, RD 623, January 1964.
[426] Ibid.

process of corporation tax, as explored in the previous chapter, with capital gains tax. Thus, this chapter attempts to untangle the intertwined intrinsic objectives of capital gains tax, which partially configured Labour's 'socialist tax', from fiscal and monetary perspectives, and aims to provide further understanding of the interrelations between Labour's fiscal and monetary measures.

5.2 Capital gains tax formation process in the 1965 budget

The following section provides analysis of the development of capital gains tax and the disputes and concessions within the decision-making process.

5.2.1 The inner-Labour discussion surrounding capital gains tax

The capital gains tax established in 1965 saw a 30 per cent flat rate tax imposed on realised gains from disposable assets of individuals. Short-term gains of less than one year were subject to income tax and surtax. In addition, all short-term and long-term company capital gains were subject to the 40 per cent corporation tax. Prior to this scheme, capital gains tax, which was first introduced in 1962 under then Chancellor of the Exchequer Selwyn Lloyds' initiative, only covered the short-term gains of individuals and companies. Thus, the capital gains tax reform of 1965 broadened the tax base to include long-term capital gains.

In early 1964, the Labour Party forged the proposal for a new capital gains tax. Although Labour initially considered implementing expenditure tax, it was given up because it was not deemed ‘practical politics’, and modification of the existing capital gains tax was considered the most ‘down-to-earth scheme’.[427] Moreover, value added tax (VAT) was also considered by the Richardson Committee, however, the idea was rejected due to the following three reasons. Firstly, VAT would be ‘politically impossible because, it is too revolutionary, appears too crackpot'.[428] Secondly, this VAT would produce ‘an administrative nightmare, both for the taxation authorities and for business – we found plenty of difficulties in a universal value added tax in the Richardson Committee, especially if, as seems likely, things like food were exempted from the tax for political reasons.’[429] The final reason stated was that VAT could be perceived internationally as ‘equivalent to a devaluation’ and if it were considered ‘too crackpot to last’ it could prompt capital flight.[430] With the options of expenditure tax and VAT exhausted, Labour focused on reforming taxation, including capital gains tax.

Labour’s intention behind the series of tax reforms was clearly summarised as below by the Party’s Working Party on taxation:

---

[427] Kaldor Papers, NK/11/1/25-31, Labour Party, Working Party on Taxation, Draft Report on Taxation and Incomes Policy, RD 695, February 1964.
[428] Ibid.
[429] Ibid.
[430] Kaldor Papers, NK/3/110/83, The Board Room Inland Revenue Somerset House, 29 Oct 1964. In accordance with the estimation of MacDougall at the Richardson Committee, purchase tax was considered a more efficient scheme to collect revenue. See MacDougall, *Don and Mandarin*, p.147. The reason the Labour Party saw the potential of VAT to cause capital flight was perhaps related to its export rebate or remittance on export goods. However, this effect is not yet empirically exemplified in existing research. For the recognition of the effects of VAT on the level of exports of the succeeding Edward Heath government, which introduced VAT in 1973, see Command Papers, 4621: *Green Paper on Value-Added Tax* (London: Her Majesty's Stationery Office, 1971).

All general tax reforms proposed in our report are designed to bring about a fairer tax structure and they may accordingly be expected to help an incomes policy by creating a more favourable climate of opinion.[431]

The Working Party on taxation also recognised the importance of reconciling the unions: 'whether this would prove acceptable to the unions as a quid pro quo would remain to be seen.'[432] As existing research has pointed out, it is clear that one of the aims behind the tax reform, including capital gains tax policy reformation, was to broaden the tax base to include long-term gains. Furthermore, the achievement of Labour's aim of 'fairness' would have a significant role in reconciling the unions to accept the incomes policy, which was considered a prerequisite scheme for dealing with the balance of payments deficit.[433] In summary, reforming capital gains tax was one of Labour's remaining options after expenditure tax and VAT were deemed not politically realistic in early 1964. In addition, the purpose of Labour's capital gains tax with corporation tax was not only to eradicate the tax loophole, but also to pave the way to an incomes policy acceptable to the unions, to bolster stock prices, and

---

[431] Kaldor Papers, NK11/1/13-19, Labour Party, Working Party on Taxation, Report on Taxation and Incomes Policy, RD 742, April 1964.

[432] Kaldor Papers, NK11/1/47-48, Labour Party, Taxation Working Party, Minutes (4), 31 January 1964.

[433] On 22 January 1965, the Chancellor explained to the Trades Union Congress (TUC) how corporation tax and capital gains tax related to incomes policy. TNA, T171/803, Summary Note of a Meeting held in the Chancellor of Exchequer's room, Treasury Chambers, Friday 22 January 1965, 2.45 p.m. Kaldor also asserted a similar view. See TNA, T171/804, Kaldor to the Chancellor: First Memorandum on Tax Reform, 29 October 1964. For the link between Labour's taxation and incomes policy, see Pemberton, 'Taxation and Labour's Modernisation Programme', p.425. Also see, Daunton, *Just Taxes*. Whiting, *The Labour Party and Taxation*, pp.159, 168. Callaghan, *Time and Chance*, p.169, and Brandon, *In the Red*, p.52.

expand foreign investment, strategies perceived to aid the amelioration of the balance of payments deficit.

5.2.2 Capital gains tax proposal formation

When Labour leapt into government in October 1964, it was forced to take steps to manage the sterling crisis. Speculation surrounding sterling emanated from the announcement of the balance of payments deficit and the autumn budget speech. Labour was forced to solicit solvency from foreign central banks. Economic Adviser to the Treasury Robert Neild stated his doubts in a letter to Chancellor of the Exchequer, James Callaghan:

> Already before the election stock brokers were producing circulars calculating possible effects of a Corporation Tax, or a Capital Gains Tax and thus they were encouraging investors to take account of the unknown changes that lay ahead […] this kind of uncertainty has a bad effect on sterling by upsetting foreign investors […] Foreign confidence really depends upon the success of the Government's policies to handle the domestic economy and the balance of payments as well as upon the economic justice and efficiency of the changes we make in taxation.[434]

Thus, the Labour government had to arrange its own economic ideology with the demand placed upon it to implement effective domestic economic measures in order to tackle the balance of payments deficit. The financial market focused particularly on the potential reform of corporation tax and capital gains tax in the upcoming 1965 budget.

---

[434] TNA, T171/804, R. R. Neild to the Chancellor, c.c. Sir William Armstrong, 11 November 1964.

On 8 December 1964, the Chancellor of the Exchequer stated the need to broaden the tax base to be covered by capital gains tax, including on individuals and companies who would be liable to tax on realised gains. As an exception, the Chancellor planned that non-residents, including individuals and companies, would not be subject to capital gains tax.[435] This proposal incurred a significant political backlash from the financial market including the Bank. Prior to this statement, Cromer, then Governor of the Bank, criticised the government's tax proposal in a letter to Sir William Armstrong, Joint Permanent Secretary to the Treasury, on 2 December 1964. Regarding the governmental consideration of variable rates of capital gains tax, Cromer argued that,

> The smooth functioning of the gilt-edged market depends in part on the ability of analysts to make firm comparisons among yields on Government stocks and between these and yields on other fixed interest securities. A variable rate of tax would make such comparisons uncertain…which could have very damaging effects. I would therefore urge strongly that a flat rate should be adopted.[436]

Cromer clearly required the Treasury make efforts to limit the potential uncertainty and disturbing effects on the financial market, which would be produced by the capital gains tax, and to adhere to the flat rate tax due to its simplicity, efficiency and neutrality.

The dispute over the exemption of the gilt-edged market was inflamed when, on 11 December 1964, the Governor cast doubt on the imposition of capital gains tax upon it.[437] Taking the same line as the Bank, Fred Catherwood, Chief

[435] TNA, T171/804, Chancellor's Statement of 8th December on the new taxes, 8 December 1964.
[436] TNA, T171/805, Governor to Sir William Armstrong, 2 December 1964.
[437] TNA, T171/804, Governor to Sir William Armstrong, 11 December 1964.

Industrial Advisor at the Department of Economic Affairs (DEA), summarised the comments from industries and the City, stating that they had pointed out 'that the yield on gilt-edged is basic to the whole market structure of interest rates and that it has the widest international repercussions', demanding that 'the Government must make a statement exempting gilt-edged securities from the capital gains tax as soon as possible'.[438] The Bank and the DEA were highly concerned with the potentially disturbing effects of the capital gains tax on the gilt-edged security market, which would likely influence financial assets and debts.

Conversely, the Chancellor recognised that there was 'everything to be said for including gilt-edged within the ambit of the tax […] if gilt-edged were excluded there would be continuing agitation for the exclusion of all fixed interest stocks.'[439] For the Chancellor, the capital gains tax exemption for gilt-edged securities was an unpalatable choice as he perceived that this would inevitably lead to further exemptions, resulting in the continuation of tax loopholes, irreconcilable with Labour's ideology. Despite the intent of the Chancellor, the political row surrounding the capital gains tax rates structure and the matter of exemption of the gilt-edged market intensified, with criticism from institutional investors such as life insurance companies. The original proposal for the coverage of capital gains tax on institutional investors is shown in the table below (Figure 5-1). Prior to the initial tax reform proposal of 1965, the long-term gains of life funds, building societies, Lloyds underwriters and investment and unit trusts were exempt from capital gains tax (Figure 5-2). Labour attempted to remove the capital gains tax exemption for these

[438] TNA, T171/804, H. F. R. Catherwood to Sir Eric Roll, 18 December 1964. This minute was circulated to the Treasury.
[439] TNA, T171/804, Corporation Tax and Capital Gains Tax, 22 December 1964.

institutional investors and to impose tax on their net revenue. The figures below show that Labour's initial proposal would see 'Net Net' Funds expand significantly. It is clear that the tax reform to include long-term capital gains encompassed the impact of broadening the tax base to include the institutional investors.[440]

Figure 5-1: Institutional Funds by Proposed Taxation Class
(1965 Budget Initial Proposal)

		0 –5 years	Over 5 years	Total	0–5 years (%)	Over 5 years (%)
Gross (untaxed either on interest or capital gains)						
	Pension Funds	29	1,034	1,063		
	Charities	100	150	250		
	Foreign Life Funds	10	160	170		
	Overseas Central Monetary Institutions	633	391	1,024		
	Total	772	1,735	2,507	30.1%	34.1%
Net (taxed on income only)						
	Total	0	0	0	0.0%	0.0%
"Net Net" Funds (taxed on net revenue including capital gains)						
	Life Funds	40	1,810	1,850		
	Banking Sector	1,460	925	2,385		
	Trustee Saving Banks	50	150	200		
	General Insurance Funds	20	220	240		
	Building Societies	134	167	301		
	Lloyds Underwriters	80	50	130		
	Investment and Unit Trusts	8	33	41		
	Total	1,792	3,355	5,147	69.9%	65.9%
Total Institutional Funds		2,564	5,090	7,654	100.0	100.0

Source: BoEA, 6A319/3 A Background for Gilt Edged, March 1965. Note: Format and data taken from 6A319/3. 'Life Funds' in the 1965 Budget Initial Proposal moved from 'Net' to 'Net Net Funds' according to the initial proposal of the Labour government.

[440] The proposal for the tax structure was highly complicated. In the category of 'Net Net' funds of Labour's proposal, net revenue (including capital gains of the banking sector), trustee saving banks (including special investment departments) and general insurance funds would be subject to corporation tax. On the other hand, in terms of building societies and investment and unit trusts, their income would be taxed under corporation tax, and realised capital profits would be subject to capital gains tax. Regarding Lloyds underwriters, its income would be taxed under income tax and realised capital profits would be subject to capital gains tax.

Figure 5-2: Institutional Funds by Present Taxation Class (Pre-1964, before Labour's CGT)

	0 –5 years	Over 5 years	Total	0–5 years (%)	Over 5 years (%)
Gross (untaxed either on interest or capital gains)					
Pension Funds	29	1,034	1,063		
Charities	100	150	250		
Foreign Life Funds	10	160	170		
Overseas Central Monetary Institutions	633	391	1,024		
Total	772	1,735	2,507	30.1%	34.1%
Net (taxed on income only)					
Life Funds	40	1,810	1,850		
Building Societies	134	167	301		
Lloyds Underwriters	80	50	130		
Investment and Unit Trusts	8	33	41		
Total	262	2,060	2,322	10.2%	40.5%
"Net Net" Funds (taxed on net revenue including capital gains)					
Banking Sector	1,460	925	2,385		
Trustee Saving Banks	50	150	200		
General Insurance Funds	20	220	240		
Total	1530	1295	2825	59.7%	25.4%
Total Institutional Funds	2,564	5,090	7,654	100.0	100.0

Source: BoEA, 6A319/3, A Background for Gilt Edged, March 1965.

5.2.3 Dispute over the concessions

The issue of setting a specific and flat rate of capital gains tax, as demanded by Cromer, was settled in the Treasury and Inland Revenue (IR) at an early stage in the budget formation process. On 30 December 1964, Sir Alexander Johnson, Chairman of the Board of Inland Revenue informed the Chancellor that a single flat rate capital gains tax would have a substantial administrative advantage in its avoidance of the complicated calculation of capital gains. However, Johnson's consultation supported not a single flat rate, but rather two-tier tax rates, which Johnson indicated would hinder tax evasion.[441] He assessed that a single flat rate would be ‘easier to run’ and would ‘please the City’.[442] However, in contrast to the argument of Johnson, McKean of the Inland Revenue presented his view that long-term capital gains tax should be formed with a flat rate.[443] Sir William Armstrong criticised McKean’s line on this matter, presenting the Treasury’s preference for two-tier tax rates due to its effects on social equity.[444]

After the consultation between the IR, the Treasury and the Bank, the Chancellor agreed to separate the short-term capital gains tax rate from the long-term capital gains tax rate on individuals in a meeting at the Treasury on 21 January 1965.[445] In this meeting, in light of Labour’s pursuit of ‘fairness’ in its tax reform, it was argued that the rate of capital gains tax should mirror income tax and corporation tax rates.[446] The intention behind this was to avoid setting a rate of capital gains tax much lower than rates of corporation tax and income tax, which ‘could jeopardise the achievement of effective incomes policy if income in the form of capital gains were taxed at a lower rate than wages and

---

[441] TNA, T171/805, Alexander Johnson to the Chancellor: Capital Gains Tax, 30 December 1964.
[442] Ibid.
[443] TNA, T171/805, McKean to the Chancellor: Capital Gains Tax, 31 December 1964.
[444] TNA, T171/805, Sir William Armstrong to A. J. G. Issac: Capital Gains Tax, 8 January 1965.
[445] TNA, T171/804, N.T. (65) 1st Meeting, Note of a meeting in the Chancellor of the Exchequer’s room, H.M. Treasury, Thursday 21 January 1965, 3.00 p.m.
[446] The Bank also considered Labour’s tax principles. On 11 February 1965, Jeremy Morse, Executive Director of the Bank, in a letter to Jasper Hollom, Chief Casher of the Bank, stated that the aim of this tax reform was to modernise and simplify the tax system, and to achieve an equitable distribution of the tax burden. This letter described the pre-1964 system as ‘deadwood of past theory and practice’. Morse concluded that the Bank ‘must be in favour of these objectives. How far are the present proposals for corporation tax and capital gains tax likely in practice to further them?’ BoEA, 6A319/2, Jeremy Morse to Jasper Hollom, 11 February 1965.

salaries'.[447] In addition, in this meeting, it was concluded that short-term gains of individuals should be subject to full income tax and surtax rates, and that short-term capital gains tax should cover gains made within one year from any source.[448] It was provisionally agreed that the capital gains tax rates on companies' long and short-term gains should be taxed at the same rate as corporation tax. From this discussion, it is clear that the Chancellor held concerns about the links between 'fairness', incomes policy and capital gains tax.

The political conflict surrounding the proposed capital gains tax that emerged over the exemption of gilt-edged securities would prove the most bitter. On 21 December 1964, Cromer sent a note to the Chancellor detailing the Bank's view on capital gains tax and urged the government to make exempt the gilt-edged market from capital gains tax. In this note, Cromer stated that 'the most compelling argument' was the increasing difficulty of financing the 'over-growing public sector on fixed interest securities against the competition of equity shares'. In addition, Cromer further detailed,

> If exemption is not given, the result will be not merely a loss of a potential advantage but the infliction of positive damage. Turnover in gilt-edged will inevitably drop sharply, robbing the market of the breadth and resilience which make it unique amongst the fixed interest capital markets of the world […] In such a narrowed market the possibility is that the Government would ultimately pay more for its borrowing, particularly at long term. Further, in the absence of a broad market and without the volume of switching that has become customary, the Bank of England's technique of feeding out new issues of Government stock to the market would be appreciably hampered and the result might well be some

[447] TNA, T171/804, N.T. (65) 1st Meeting, Note of a meeting in the Chancellor of the Exchequer's room, H.M. Treasury, Thursday 21 January 1965, 3.00 p.m.
[448] Ibid.
Previously, the gains from land owned less than three years, and stocks and shares owned less than six months were considered short-term taxable gains.

> reduction in total sales of stock in any given circumstances and hence an increase in unfunded debt.[449]

The Bank stated the possible difficulty of debt management without exemption for gilts and the risk of shrinking London's fixed interest capital market. In stark contrast to Labour's initially optimistic view on the effects of capital gains tax on stock markets, in that it would encourage investors to hold securities longer and lead to postponement of the sale of securities, which would increase stock prices, the Bank expressed that a capital gains tax without exemption of gilt-edged securities would have a harmful effect on the financial market.

On 5 January 1965, the Working Group investigating the exemption of gild-edged, dubbed Goldman's Committee, was held and conflict ensued. During the discussion in this committee, the Bank and the DEA advocated exemption, while the IR and Treasury opposed exemption.[450] The arguments that emerged were classified by the Bank into the categories of the 'moral argument' and the 'practical argument'.[451] The moral argument referred to the matter that the capital gains tax might encompass discriminatory influence on investors with low-coupon fixed interest stocks, possibly affecting the market as a whole. Conversely, the 'practical arguments' were detailed as follows. Firstly, it was put forth that capital gains tax would lock in investors, reducing activity and making it more difficult for the Bank to 'peddle out' new stocks, since the Bank usually

---

[449] TNA, T326/412, The case for the exemption of gilts from capital gains tax, attached to letter from the Governor to the Chancellor, 21 December 1964.

[450] BoEA, 6A319/1, Jeremy Morse to Leslie O'Brien, 7 January 1965, and BoEA, 6A319/1, Jeremy Morse to the Governor: Exemption of Gilt-Edged from Capital Gains Tax, 12 January 1965. Catherwood of the DEA and Sir Alec Cairncross supported the view of the Bank. Kaldor suggested a compromise and 'the exemption of all holdings acquired before the date the tax was announced'.

[451] BoEA, 6A319/1, Arguments for Exemption of Gilt-Edged from Capital Gains Tax by Jeremy Morse, 12 January 1965.

depended upon a ‘chain of deals which frees certain investors to take up slightly more attractive new stocks.’[452] The Bank saw the possibility that ‘new stocks would have to be made more attractive, thus increasing the cost of borrowing to the Government.’[453] Secondly, the Bank argued that the capital gains tax would have a destabilising effect on the market. It perceived that increases in price would ‘be accentuated because holders will not wish to realise taxable gains, and falls will be accentuated because holders will want to realise tax losses.’[454]

The Bank proceeded to explain the potential fluctuation and sluggish transactions of the financial market which were considered a cause of uncertainty that may be produced by the capital gains tax, highlighting that forecasts showed:

> the price adjustments in various low-coupon stocks that might follow the announcement of a 35% or 25% capital gains tax, on the basis of the yield relationship between low- and high-coupon stocks which existed before the announcement about taxation last October […] it seems that initially turnover was considerably reduced[455]

Conversely, the Bank concluded that its analysis on the institutional investors showed that switching had ‘not been affected to any great extent, as most of the big switchers, including insurance companies, were unaffected by the tax.’[456] The Working Group’s report recognised that capital gains tax would reduce dealings in gilt-edged securities including issue and redemption, and have a

---

[452] Ibid.
[453] Ibid.
[454] Ibid.
[455] TNA, T326/413, Paper by Bank of England, Circulated at the Meeting of Group, 11 January 1965.
[456] Ibid.

'de-stabilising effect' on the prices of the market.[457] In addition, it was stated that the capital gains tax would hinder the Bank's smoothing operations. Then, the Group compared the pros and cons of the exemption: 'the market was of very great size, the maturity structure was very well spread, and the general volume of transactions was very large […] The effect of the tax upon management of the debt could therefore easily be exaggerated'.[458] As a disadvantageous aspect, the Group suggested that 'Gilts have long suffered by comparison with equities, as the result of inflation and the rise in interest rates', however, exemption of gilts from the capital gains tax would improve the 'marketing of government bonds.'[459] The report issued by the Working Group summarised that a great proportion of gilt-edged market transactions would be unaffected by capital gains tax, and there would be a risk of excessive borrowing from the banking system. However, capital gains tax 'may itself tend to enhance the attraction of fixed interest securities compared with ordinary shares and exemption from the tax might not be very effective as a stimulus to demand for gilts.'[460] From these discussions, both advantageous and disadvantageous predictions were expressed, however, the scepticism over the effects of the capital gains tax on the gilt-edged market would not be abated.

On 25 January 1965, the Treasury responded to the Bank's suggestions.[461] The Treasury pointed out that government securities were widely distributed in the market. This was according to statistics indicating that £8,000 million of a

---

[457] TNA, T326/413, Her Majesty's Treasury, Working Group on Gilt-Edged and Capital Gains, 11 January 1965.
[458] Ibid.
[459] Ibid
[460] TNA, T326/413, Capital Gains Tax and Gilt-Edged Securities, 25 January 1965.
[461] BoEA, 6A319/2, Capital Gains Tax and Gilt-Edged Securities, Note by the Treasury, 25 January 1965, attached to letter from Jeremy Morse to the Governor, 2 February 1965.

total £14,400 million, or 56 per cent of total market holdings, was held by institutional investors. The Treasury concluded that such institutional investors, especially insurance companies, would not be affected by capital gains tax, because those capital gains would be taxed under corporation tax, therefore their capital gains would be out of range of capital gains tax. It further detailed that the affected holdings such as commercial and industrial companies that owned £300 million, individuals that owned £3,200 million and building societies that owned £300 million, must be considered from a different point of view. Moreover, regarding the above 'moral' argument, a note by the Treasury detailed,

> If it is complained that a tax on capital gains would penalise the holder of a low-coupon stock in comparison with that of a high coupon stock, then it must be remembered that changes in Bank Rate tend to have a differing effect upon the market value of stocks according to their maturity; and the long rise since the war in the level of interest rates has imposed far greater penalties on the holders (many of them small savers) of undated and long dated Government stocks.[462]

In other words, the Treasury asserted that the monetary policy had a greater disruptive effect on the gilt-edged market than taxation, and exemption of gilts would have only minor impacts on the market, therefore attempting to vindicate the capital gains tax.

With respect to debt management policies, the Treasury stated the 'main effect on debt management would be to make it more difficult for the Issue Department to "peddle out" stocks to the market, and to buy in the next securities'. The Treasury concluded that inflation and ensuing distrust of fixed

---

[462] Ibid.

interest securities, and recurrent balance of payments crises, in short 'economic' causes rather than 'technical', had been and would likely continue to be a major factor in the difficulties of market management.[463] It is clear that the Treasury denied the negative effects of capital gains tax on the securities market, and perceived that should the gilt-edged securities market be disturbed the cause would be the economic situation. Moreover, the Treasury stressed that the impact of the capital gains tax on the fixed interest securities market would be limited:

> the new tax should in any case tend to shift the balance of preference from equities to fixed interest securities in that capital appreciation is a larger component of the expected return on equities. Moreover, if a stimulus to gilt investment is required, the exemption from capital gains tax is unlikely to be very effective to that end, since the tax will only have a comparatively small effect on net yields.[464]

In sum, the Treasury declined the proposals of the Bank, which required the exemption of gilts. It is evident from analysis of Bank sources in conjunction with Treasury sources that the dispute over the exemption of gilt-edged securities demonstrates the conflict that arose between monetary and fiscal policies over debt management and the taxation base, including revenue. It is somewhat surprising that the Treasury, responsible for issuing government bonds, did not significantly take account of the influence of the capital gains tax on debt issuing policies. Meanwhile, it was the Bank that was concerned with the gilt-edged securities market, including the primary and secondary markets.

[463] Ibid.
[464] BoEA, 6A319/2, Capital Gains Tax and Gilt-Edged Securities, Note by the Treasury, 25 January 1965.

Despite the report from the Treasury, officials at the Bank continued their defiant stance. The rationale behind the Bank's opposition to the capital gains tax is made clear, and so, perhaps, are the intentions and reasons behind the Treasury's stance against the exemption of gilts, in a letter from Cromer to the Chancellor, dated 4 February 1965:

> we have been obliged to buy more than we could sell; and over the last ten years as a whole we have raised in all by sales of stocks only about £150 million towards a total Exchequer financing requirement of about £1,800 million.[465]

Cromer further stated that if

> we are to be able to get the long-term rate as low as possible when circumstances warrant, either we must substantially and visibly reduce the Exchequer's need to borrow or we must enhance the appeal of Gilt-edged to all investors. The exemption of Gilt-edged from the Capital Gains Tax affords a practical opportunity to do just this.[466]

It is clear that the misgivings of the Bank concerning capital gains tax related to fiscal finance and the independence of the institution itself.[467] Cromer stressed

---

[465] TNA, T326/413, Governor to the Chancellor, 4 February 1965.
[466] Ibid.
[467] The topic of the independence of central banks and its effect gathered academic attention. Cukierman insisted that the level of inflation depends on the extent to which the central banks achieve independence from politics. See Alex Cukierman, Steven B. Webb and Bilin Neyapti, 'Measuring the Independence of Central Banks and Its Effect on Policy Outcomes', *The World Bank Economic Review*, Vol.6, No.3, September 1992, pp.353-98, and Alex Cukierman, *Central Bank Strategy, Credibility, and Independence: Theory and Evidence* (Massachusetts: The MIT Press, 1992), chapters 19 and 20. Guy Debelle and Stanley Fischer categorised this independence into 'goal independence' and 'instrumental independence'. The former refers to central bank discretion in setting policy targets. The latter refers to governments setting the policy target

his refusal to be forced to purchase gilt-edged securities in order to finance the government. Cromer was particularly wary that the capital gains tax would put the Bank in the role of providing fiscal finance, obstructing 'instrumental independence', in terms of central bank independence, hence prompting the necessity for the Bank to seek to minimise the impact of the capital gains tax on the gilt-edged securities market. Moreover, it can be reasonably argued that the Treasury's intransigent stance against the exemption of gilts was based on the Bank's debt management operations for the Treasury's debt finance policies.

The Chancellor showed an uncompromising stance in a later meeting, stating that 'the tax would not significantly diminish the fluidity of gilt-edged market, and that demands for the exemption of profits on dealing in and redemption of gilt-edged securities had been misguided.'[468] This attitude of the Chancellor had been maintained throughout the discussion thus far, as evident in an earlier discussion in which he had stated 'nevertheless, as the Governor is very properly concerned with the Gilt-Edged market, could we not tell him in confidence that we hope, in connection with Corporation Tax, to be able to remove the present disadvantage from which Gilt-Edged suffers'.[469]

---

and central banks having discretion to implement measures in order to achieve the policy target. See Guy Debelle, and Stanley Fischer, 'How Independent Should a Central Bank be?' in Jeffrey C. Fuhrer (ed.), *Goals, Guidelines, and Constraints Facing Monetary Policymakers* (Massachusetts: Federal Reserve Bank of Boston, 1994), p.197. On the other hand, former Governor of the Bank of Japan Shirakawa emphasised the concept of 'target independence', or policy target setting in the democratic process, with central banks independently mobilising their measures to meet their policy target. Masaaki Shirakawa, *Gendai no Kinyu Seisaku: Riron to Jissen* (Tokyo: Nikkei Publishing Inc., 2008), pp.100-2.

[468] TNA, T171/805, Note of a meeting in the Chancellor of the Exchequer's room, H.M. Treasury, Friday 19 March 1965, 11.00 a.m.

[469] TNA, T326/413, A. J. G. Issac to Goldman: Capital Gains Tax and Gilt-Edged Securities, 5 February 1965.

However, the attitude of the Treasury and the Chancellor began to oscillate in the face of change in the gilt-edged securities market. On 17 March 1965, in a letter to Jasper Hollom, Chief Cashier of the Bank, Italo de Lisle Radice, Under Secretary of the Treasury, reported that the article 'Anatomy of the Gilt-Edged Market' which appeared in *The Times*, had attracted the attention of the Chancellor.[470] This article asserted that the present tax structure created different values for different holders, and this difference in values invigorated 'interplay' and increased liquidity and prices. The article warned that a standardised tax structure on institutional funds would endanger liquidity and the prices of stocks.[471] While the gilt-edged market was heavily focused on during the tax policy formation process, a decline in stock turnover came to light, as shown below (Figure 5-3).[472] In March 1965, the volume of the turn over of gilt-edged securities plummeted to approximately half of the level of the previous month.

[470] BoEA, 6A319/3, I de L. Radice to J. Q. Hollom, 17 March 1965.
[471] *The Times*, Anatomy of the Gilt-Edged Market, By City Editor, 17 March 1965.
[472] BoEA, 6A319/4, Gilt-Edged Market Turnover, attached to letter from M. J. Thornton to Radice, 20 May 1965.

Figure 5-3: Gilt-Edged Market Turnover (£ Millions)

		Short-dated Stocks	Other Stocks	Total
1964	Oct/Dec	25	19	44
1965	January	24	22	46
	February	37	17	54
	March	19	9	28
	April	25	13	38
Weeks ending				
	16th April	20	9	29
	23rd April	21	15	36
	30th April	32	15	47
	7th May	17	10	27
	14th May	14	8	15

Sources: BoEA, 6A319/4, Gilt-Edged Market Turnover attached to letter from M. J. Thornton to Radice, 20 May 1965.
Note: Daily average purchase plus sales in £ millions.

Following the release of these statistics, concerns over sterling and capital gains tax were raised. Radice stated his doubt that an improvement in confidence in sterling would come about that may boost the gilt-edged market, and asserted the importance of looking at short-term consequences that may arise from 'continuing depression of the gilt-edged market'.[473] In addition, Radice gave the forecast of government borrowing at £100 million, and detailed his concern that the government may be unable to sell gilts at all if insurance companies 'hold off the market' since the private sector had been a net seller. Moreover, Radice stated concerns regarding the UK's foreign creditors:

[473] BoEA, 6A319/4, Radice to Walker: Capital Gains Tax and Gilt-Edged, 24 May 1965.

> In the letter of intent to the IMF we said that it was our aim to maximise sales of Government debt to non-banks and that we did not expect the banks to take up debt on a scale which would increase their liquidity to an unacceptable extent. The IMF and members of Working Party 3 will be quick to note any failure on our part to live up to these expectations […] Excessive borrowing from the banking system could upset one of the bases of the budget judgment and involve us in further difficulties with the U.K.'s foreign creditors.[474]

Radice's remark shows recognition of the expectation of foreign creditors for the broadening of holdings of gilt-edged securities to non-bank sectors.[475] Radice was evidently concerned that relationships with foreign creditors would be tarnished, which would increase difficulty in managing sterling. From this, it is apparent that the capital gains tax reform provoked a discussion surrounding the gilt-edged market as inextricably connected to the management of sterling.

An argument suggesting the connection between the tax reform and currency management can also be seen in documents of the Bank. On 26 April, in a letter to the Chancellor, Cromer mentioned the obligation to the IMF that the UK would limit the increase in bank advances within 5 per cent until March 1966.[476] Cromer stated that the central bankers abroad would be able to 'judge whether the United Kingdom has made any effort to keep within the 5% growth of deposits and advances put forward to the I.M.F.'[477] In addition, if this figure were exceeded, 'the exchange markets would treat the excess as a very poor

---

[474] Ibid.
Regarding the further report of Radice, see also 6A319/4, Radice to Sir Denis Rickett, 21 May 1965.
[475] Within the banking structure, credit expands according to legal limits on the ratio of deposit to lending. Expanding the volume of gilt-edged securities held by the banking sector leads to the increase in its liquidities and potentially produces an inflationary force.
[476] BoEA, G1/260, Governor to the Chancellor: Undertakings to the International Monetary Fund, 26 April 1965.
[477] Ibid.

omen.'[478] Cromer connected this matter to capital gains tax on 6 July. He predicted that the seasonally adjusted annual rate of bank deposits would increase by between 6 and 8 per cent, while the gilt-edged market was still in a 'demoralised condition'.[479] These factors were highly important in the foreign exchange market and a 'central determinant of the supply of money'.[480] Cromer deemed this situation complex. He asserted that this situation was brought about mainly by the reform of capital gains tax, the threat of steel nationalisation, high interest rates and expansion of government borrowing. In closing, Cromer again recommended the exclusion of the gilt-edged market from the provisions of capital gains tax.[481]

Despite the Bank's efforts, major exemption of gilts was not accepted. However, on 24 May 1965, the Bank reported that the Chancellor did 'want to make a concession, partly for political reasons and partly to help Government borrowing'.[482] At this meeting, Kaldor outlined his proposal. To begin with, he identified the price difference between the issue and redemption of stocks as accrued gains. This would be taxed at an even rate, reducing the holder's selling price for the purpose of capital gains tax. Kaldor indicated that he would be willing to make a limited concession if the price difference between issue and redemption were large. However, in this meeting it was agreed that the following proposal would be made to the Chancellor: 'gains occurring within the range between the price of issue and redemption price should be disregarded

---

[478] Ibid.
[479] BoEA, G1/260, Governor to the Chancellor, 6 July 1965.
[480] Ibid.
[481] Ibid.
[482] BoEA, 6A319/4, Note for the Record: Capital Gains Tax and Gilt-Edged, 25 May 1965.

for tax purposes, the sale price being taken as either the actual sale price or the price of issue, whichever was the lower.'[483]

After this meeting, while Armstrong, Hollom and Radice were making a draft of the proposal to the Chancellor, the IR intervened via telephone. Alexander Johnson informed the officials that the 'Revenue could not tolerate the proposal' because it would not only mean that gains occurring within the range of issue and redemption prices would be tax free, but also losses could be used to counter-act the calculation of gains.[484] The IR urged that 'neither losses nor gains should be taken into account'.[485] This was then incorporated into the revised proposal.

In the new proposed scheme, in cases where the buying price was below the 'neutral zone' and the selling price was within the zone, the taxable gains would be the difference between the buying and issuing price. On the other hand, if the buying price was in the neutral zone and the selling price was above this zone, the taxable gains would be the difference between the redemption price and selling price. It was reported that this scheme would 'create a tax-exempt zone of varying size for most existing stocks' and the larger this zone, the greater the effect.[486]

On 26 May 1965, the Chancellor asked Deputy Governor of the Bank, Leslie O'Brien, for an overview of the market reaction to this proposed concession on capital gains tax. Cromer's successor responded that 'it would be quite favourable and the concession would be easily understood', with Armstrong's

483 Ibid.
484 Ibid.
485 Ibid.
486 Ibid.

opinion being that 'it was the best could be produced.'[487] In addition, it is recorded that the Chancellor stated he 'would quite like to give a full exemption for gilt-edged from capital gains tax if it would give gilt-edged a real boost', to which Kaldor 'intervened vehemently', asserting that full exemption would lead to the loss of income tax due to 'bond washing'.[488] Evidently, the Chancellor could not ignore the market response and held concerns regarding the effect of capital gains tax on the market. In this meeting, the Chancellor accepted that issuing price would apply not to the average price of various tranche of stock issue but to the lowest price because it would prove more equitable. In this way, a new tax loophole was created to mitigate pressure from the Bank and City through accepting its logic in which the concessions would stabilise the gilt-edged market and create favourable conditions for government funding.

5.3 Reconsidering capital gains tax and corporation tax

In light of the history of monetary policy, the 1965 tax reform can be assessed as a trial introduction of a new scheme to tackle the balance of payments deficit. As Pemberton has delineated, in the formation of capital gains tax and corporation tax, Labour aimed to encourage physical investment by increasing retained profits and suppressing the distribution of companies' profits.[489] According to Tomlinson, this can be described as 'industrial modernisation policy,' which was intended to bring an end to the 'stop-go' dichotomy and

---

[487] BoEA, 6A319/4, Note for the Record, Capital Gains Tax and Gilt-Edged, 27 May 1965. A handwritten exclamation mark on O'Brien's comment perhaps indicates some surprise.
[488] Ibid. Handwritten on this statement is the comment, 'I hope we shall not neglect any opportunities this attitude may give us'.
[489] Pemberton, *Policy Learning*, p.161.

increase exports.[490] In addition, existing research has rightly detailed that the capital gains tax, which aimed to broaden the tax base, was formed in order to achieve an effective incomes policy and reconcile the unions that sought a more equitable tax system.[491] From the analysis presented in this chapter, another dimension can be added to the understanding of the intentions behind the tax reform: Labour initially held expectations that the capital gains tax would increase stock prices through its encouraging effects on investors to hold stocks for a longer term and contribute to the increase in tax revenue. However, this function was harshly criticised by the Bank on the grounds of its potential disturbing effects on the financial market.

When it comes to the negotiation process between the Labour government and the Bank, the analysis presented in this chapter has shed light on links between taxation, management of sterling, the presence of the financial market, debt management and the independence of the Bank. The proposed capital gains tax, which was supposed to be vital for tougher incomes policy and encouraging exports, stirred up a significant political backlash from the Bank and City, although the intentions of achieving an effective incomes policy and increase in exports were not explicitly contradictory to the aims pursued by the Bank. Behind this opposition, officials at the Bank held concerns regarding three possible negative repercussions of the new capital gains tax that would be inflicted upon the financial market, the Bank's debt management policies in relation to its independence, and management of sterling.

Firstly, the Bank perceived that the imposition of tax on capital gains would disrupt capital formation and discourage market transactions, especially in gilt-

[490] Tomlinson, *The Labour Governments*, p.52.
[491] Pemberton, *Policy Learning*, chapter 6.

edged securities, which would result in a reduction in market turnover. Secondly, the Bank considered that due to the potential shrinking of the gilt-edged securities market, capital gains tax would lessen the effectiveness of Bank's debt management policy, particularly concerning the operation of tight monetary policies. Moreover, the Bank was concerned that this would inevitably lead to its involvement in fiscal finance. The Bank attempted to limit or remove the obstacle which would lead it to be stuck in the mire of propping up the prices of gilt-edged securities for a favourable market milieu for public finance. On the other hand, the non-exemption of gilts was predicted to hamper the Treasury's bond issue, however, the Treasury itself opposed its exemption. It can be reasonably assumed that the reason behind this contradictory policy preference was the Treasury's reliance on the Bank's indirect support for its debt finance. In this respect, the conflict over the exemption of gilts between the Bank and the Treasury with the Chancellor, was partially over the independence of the Bank.

The third major concern of the Bank was that it saw capital gains tax as a potential hindrance for the further financing of the balance of payments and refinancing of foreign borrowing. The foreign creditors, such as central banks and the IMF, paid considerable attention to Labour's tax reform and demanded the UK meticulously implement the taxation policies. In the related area of capital gains tax, these foreign creditors required the UK government diversify the holders of gilt-edged securities, to refrain from causing disturbances in the capital market and from significant increase in bank advances through liquidity expansion. In this sense, capital gains tax without exemption of gilts would potentially contravene the requirement to achieve a more diverse gilt-edged structure and to check bank advance growth. However, it should be noted that these external aspects were less emphasised in formation of capital gains tax than corporation tax.

Although the negotiations over the exemption of gilts from capital gains tax amongst the Chancellor, the Bank, IR and the Treasury encompassed these bitter political transactions, major exemption was not made. Conversely, the Chancellor actively created a loophole within capital gains tax through change in the calculation of realised gains in May, 'partly for political reasons and partly to help Government borrowing'.[492] Hence, the loophole in capital gains tax was created in the field of company taxation, not in the individual taxation structure.

Here, consideration is given to the aspect of taxation ideology in the 1965 tax reform. There is no doubt that Labour's ideology of 'social justice' was present in the proposal of capital gains tax and corporation tax.[493] However, from the analysis in this thesis of capital gains tax and corporation tax, it is possible to add further layers of understanding to the current comprehension of these policies.

Firstly, as existing research has delineated, the Labour government emphasised the capital gains tax as a 'fair' measure to gain support for incomes policy. Meanwhile, through analysis of the discussions during the formation process of corporation tax and capital gains tax, it has become evident that this emphasis on reconciling the unions to accept incomes policy was seen more clearly in the discussions over capital gains tax. In line with this, Labour made several concessions in the field of corporation tax and tax on capital gains earned by companies along the interests of the City and partially for the

[492] BoEA, 6A319/4, Note for the Record: Capital Gains Tax and Gilt-Edged, 25 May 1965.
[493] Whiting, *The Labour Party and Taxation*; Daunton, *Just Taxes*: Pemberton, *Policy Learning*.

purpose of currency management, however, regarding capital gains tax on individuals Labour did not make significant changes within the budgeting process, resulting in broadening the tax base with a loophole for company taxation. Here, it can be assessed that in the budgeting process, Labour sought 'fairness' not mainly in company taxation but chiefly in the taxation on capital gains earned by individuals. At the very least the embodied taxation showed a less stringent stance on company taxation. In this sense, Labour's 'fair, socialist tax' was espoused with or incorporated into liberal aspects, driven by the issues of currency management, debt management, and the interests of the Bank and City. Therefore, analysis of the political economy of 1965 taxation implies that Labour's 'socialist tax' should be also reconsidered from the perspective of the balance between company and individual taxation, with the context of currency management, in which Labour's tax objectives and priorities can be observed.

The above argument can be enhanced by the perspective of tax principles: that capital gains tax was wrought from the maxim of 'social justice' or 'socialist tax', compatible with the principles of taxation raised in neoclassical synthesis, such as that by Richard Musgrave. His tax principle emphasised the removal of disturbing effects and excessive incentive effects of taxation on the market, favouring simplification and neutrality over the achievement of 'fairness'.[494] In line with the emphasis on neutrality and simplification, the capital gains tax and

---

[494] Principles of taxation can be categorised into German fiscal policies, classical British thought on political economy, and American public finance or public choice and classical economics. In the maxim of Adam Smith, four principles of taxation are set: fairness in the context of benefit principles and the 'nightwatchman state'; certainty; convenience for taxpayers; and minimising the cost of tax collection. See Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (London: Methuen, 1922), originally published 1776, Book 5. On the other hand, Musgrave emphasised the neutrality of taxation on the economy, fairness in the distribution of the tax burden, and stabilisation and growth of the economy. See Richard A. Musgrave, and Peggy B. Musgrave, *Public Finance in Theory and Practice, Fifth Edition* (New York: McGraw-Hill, 1989), originally published 1973, chapter 15.

corporation tax were adjusted within the formation process. Thus, it can be considered inappropriate to place emphasis on Labour's 'fairness' alone, rather, the liberal aspects should also be highlighted.

Finally, it has been shown that delineation of fiscal aspects, such as the capital gains tax and corporation tax of the 1965 budget, should be combined with analysis of the management of sterling. With respect to the arguments concerning the budget in the early stages of the Labour government from a currency management perspective, Schenk has asserted that in order to receive support from foreign creditors, the Labour government 'was forced to accept a range of deflationary measures to which it had little ideological commitment.'[495] Conversely, from analysis combining fiscal policy and currency management, it is clear that Labour put its own tax ideology of fairness, though it was diluted, into its 'mildly deflationary' budget and attempted to blend it with the purpose of currency management. Moreover, Labour sought not to be trapped in a deflationary budget, which it strived to meticulously circumvent through the introduction of new and reformed taxation. In addition, Labour clearly anticipated that this taxation would contribute advantageously to the balance of payments and gain the confidence of foreign creditors. On the other hand, Schenk has argued that the governments of the 1950s and 1960s were not promoting the interests of the City by supporting a strong sterling exchange rate.[496] In contrast to this argument, this tax strategy, partially for bolstering the confidence in sterling, was amended to reconcile and reflect the City's interests. In this respect, a perspective combining fiscal policy and currency management is effective for delineating the multifaceted and dynamic aspects of economic management.

495 Schenk, *The Decline of Sterling*, p.204.
496 Ibid., p.240.

Chapter 6: Devaluation and 'British social democracy': Rethinking the management of fiscal policy surrounding the 1967 devaluation

This chapter aims to investigate correlation between the 1967 devaluation and fiscal policies in the 1968 budget. Over three parts, this chapter will also assess to what extent the devaluation affected the failure to reduce selectivity in social security aspects of the budget. Firstly, examination will be made of conflict in existing historical assessment of the 1967 devaluation: the main dispute is in the evaluation of the decision to devalue, and whether it was for preserving 'British social democracy' or represented Labour's failure in terms of economic policy.

If analysis of how far Labour's devaluation preserved 'British social democracy' is to be made, it is crucial to narrow down this concept. There is little doubt that social democracy, if it can be said to be applicable to characterisation of 1960s British politics, encompassed numerous aspects such as parliamentary democracy, Keynesian economic management, industrial relations, consensus or adversarial politics, redistributive fiscal policies, and so on. In order to discern the extent to which the devaluation affected Labour's fiscal policies as embodied within the 1968 budget, the second part of this chapter distils the multi-tiered, protean concept of 'British social democracy' under the Labour administration into the terrain of the selective or universal and redistributive aspects of Labour's social security system.

In the third section, this chapter delineates the decision-making process surrounding the devaluation. Reinvestigation is made of Labour's budgetary policies, with a focus on the scale and the family allowances, in which selectivity was unquestionably encapsulated. Through examination of the historical process, it is apparent that the outline of Labour's draconian budget following devaluation had been fortified in the course of idea development while drafting possible accompanying measures to the devaluation. Additionally, in the 1968 budgeting process, exponents of reduction in selectivity in the social security system were at odds with advocates of cuts in public expenditure who sought to make devaluation effective. The room for manoeuvre in the Labour government's 1968 budget was narrowed due to pressure from the Bank of England as a messenger conveying external demands, which sought further fiscal tightening: pushing for increases in income tax with concomitant reduction in public expenditure. Through political transactions, in exchange for relinquishing increase in income and corporation tax, the pressure to minimise public outlays fell to the family allowance and led to its inclusion of more selective aspects.

Finally, this chapter suggests the paradox of Labour's success and failure in the 1968 budget. While successes were evident in protecting some level of redistributive effects in the 'draconian' budget, the 1967 devaluation represented a defeat for Labour in its attempt to reduce the presence of selectivity. In closing, this chapter makes connections between this perspective and the previously discussed 'British social democracy.'

6.1 Introduction

Immediately after Labour gained a hair's breadth majority in the general election of 1964, the perennial speculation around sterling intensified. Despite Labour's strife to quell this speculation by gaining international monetary support and mobilising fiscal measures with industrial and incomes policies to defend the parity, sterling was devalued in November 1967.

Academic and journalistic attention has long been drawn to the efforts made to defend sterling over the two decades from the end of World War II, and the dispute over the devaluation of sterling under the Harold Wilson government between 1964 and 1967. Numerous works have explored this period from the perspectives of economic theory, politics, and historical analysis.[497] In one of these works, Eichengreen has emphasised that analysis encompassing intertwined political aspects is crucial to delineate the decision and 'non-decision' behind the devaluation of sterling.[498] In line with this argument, Bale focused on the political aspect, arguing that the suspension of devaluation was in order to avoid dismay, disruption of the international financial system, and the destabilisation of Labour's electoral position based on its public expenditure strategy, which relied on international monetary support and long-term and

---

497 From the economic theoretical perspective, Thirlwall and Gibson deepened the theoretical understanding of the issues around the balance of payments. A. P. Thirlwall and Heather D. Gibson, *Balance-of-Payments Theory and the United Kingdom Experience, Fourth Edition* (Basingstoke: Macmillan, 1992), originally published 1980. From an international economic perspective, Mundell and Swoboda delineated the link between international economic and fiscal matters. In addition, economic theory such as the J-curve effect was applied to explain the deterioration of the trade of deficits in the aftermath of sterling's devaluation in 1967. Mundell and Swoboda, *Monetary Problems of the International Economy*.

498 Barry Eichengreen, 'Three generations of crises, three generations of crisis models', *Journal of International Money and Finance*, Vol. 22, 2003, pp.1092-4.

structural measures including taxation and economic modernisation.[499] Since then, a number of commentators have revealed the historical developments behind the delay and decision of devaluation from economic and political perspectives. In one critical work, Oliver has shed light on discussions within the Labour government and the Bank by exploring how the Labour government, the Treasury and the Bank considered possible devaluation and what contingency planning was made.[500]

In development of research on Labour's economic policies, some have attempted to revisit and vindicate Labour's 'non-decision' to devalue sterling and its management of currency. Newton has argued that the Wilson government faced two successive sterling crises and successfully withstood the first shock in 1964. Furthermore, Newton held that the decision by the Labour government not to devalue but to seek external support was partially effective, unavoidable and justifiable.[501] This argument can be considered as drawing on Schenk's comprehensive work assessing that, because the US was ineluctably compelled to support the weak sterling so as to underpin the Bretton Woods system, the UK held bargaining power in international monetary relations and Anglo-American strategic relations, through which the UK successfully obtained external support.[502] In these assessments, there existed an inextricable link between the two reserve currencies, which was indispensable to maintain the values of both currencies in order to ensure their mutual defence.[503] This view is

---

[499] Bale, 'Dynamics of a Non-Decision', pp.192-217.
[500] Oliver, 'The Management of Sterling, 1964-1967', pp.582-613.
[501] Newton, 'The two sterling crises of 1964 and the decision not to devalue', pp.73-98.
[502] Schenk, *The Decline of Sterling*, p.204.
[503] This was an arbitrage transaction between sterling and the dollar. Once sterling held by foreign investors, the so-called sterling balance, was converted to dollars because of the decline in confidence in sterling, these accumulated dollars would potentially be converted into gold in the US Treasury gold window.

reinforced and used in other commentators' analysis of Anglo-American defence policy, financial policy, and, of broader international relations.[504]

In contrast, however, Oliver has emphasised that the Labour government took less effective measures during not dual but the 'unitary crisis' in 1964, ascribable to absence of felicitous external strategy.[505] Bordo's work with MacDonald and Oliver also revealed flaws in Labour's measures when it faced the inadequate level of UK foreign reserves.[506] These two groups of contrasting arguments lead to the question of why scholarly assessments raised in existing research diverge greatly. It should be noted that one of the causes behind the above divergence is that both arguments overlook fiscal aspects, which has left ambiguity regarding what Labour sought to defend in the terrain of economic policies. In other words, the questions are: did the Labour government attempt to defend sterling and/or protect its fiscal objectives; and what did it achieve through devaluation? As delineated in chapters four and five of this thesis, the fiscal measures of corporation tax and capital gains tax coalesced with not only the countermeasures for the balance of payments deficit but also with Labour's broader sense of economic strategy and 'ideology'. Therefore, the 'delayed' decision to devalue should be reinvestigated with a perspective that combines fiscal and monetary aspects.

Therefore, maintaining the value of and confidence in sterling was a prerequisite for bolstering the dollar position.

[504] For example, see Kevin Boyle, 'The Price of Peace: Vietnam, the Pound, and the Crisis of the American Empire', *Diplomatic History,* Vol. 27, No.1, 2003, pp.37-72. Kunz, *The Economic Diplomacy of the Suez Crisis*. Diane B. Kunz, ''Somewhat mixed up together': Anglo-American Defence and Financial Policy during the 1960s', *The Journal of Imperial and Commonwealth History*, Vol.27, No.2, 1999, pp.213-32. Dumbrell, 'The Johnson Administration and the British Labour Government', pp.211-31.

[505] Oliver, 'The Management of Sterling, 1964-1967', pp.611-3. See also, Oliver, 'The two sterling crises of 1964: a comment on Newton', pp.314-21. There is discrepancy between Oliver and Newton, who dispute whether single or double sterling crises occurred in autumn 1964.

[506] Bordo, MacDonald and Oliver, 'Sterling in Crisis, 1964-1967', pp.437-59.

It is also necessary to mention the difference in foci of existing research: concentration on either 'crisis management' or the 'crisis' itself provides divergent assessments. On one side, research focusing solely on sterling's position or the balance of payments deficit, the 'crisis', is naturally led to the ineffective measures taken by the Labour government. On the other side, research focusing on crisis management, such as negotiation of international financial support, fiscal policy and strategic relations, emphasises multifaceted assessment of the reaction to the sterling crisis. In order to resolve this conflict arising from perspectives taken, it is necessary to also look into the political process and dynamics in which Labour faced 'crises of crisis management'. This does not refer to the concept raised by Offe of 'deficiencies and limitations of the stabilizing activity of the state' arising from the systematic and internal conflicts of capitalism.[507] Rather, in order to provide clear analysis, here, the political process embroiled in 'crises of crisis management' should be revealed in the context of political economic turmoil with ineffective existing crisis management schemes, potentially entailing erosion of political legitimacy, thus provoking unexpected dynamic institutional and policy shifts. Continuity and discontinuity within the development of 'crises of crisis management' can highlight the essence of policy direction at the time due to the clarity of political priorities.

It is broadly held that the Labour government had several aims behind its economic policy, including defending government expenditure against external pressure, bolstering the international financial system and maintaining an electoral majority. These diverse aims produced a complicated fabric of countermeasures including fiscal schemes, attempts to draw upon international

[507] Offe, *Contradictions of the Welfare State*, p.36.

support, and incomes policy with tax reforms to placate both the financial market and unions. Once the path to devaluation was unavoidable in 1967, schemes to manage the crisis, including efforts to ameliorate the balance of payments deficit, became obsolete and the government embarked on revision of measures in order to restructure its favoured fiscal and monetary measures with fresh internal and external pressures. Thus, it is indispensable to look into what the government attempted to defend or change surrounding the existing institutions and policy schemes during the process of these 'crises of crisis management', where the priorities of the government can be graphically observed.

Adding to the significance of scrutinising fiscal policies and currency management during the 'crises of crisis management', here, the argument of 'British social democracy', extracted from the work of Newton, provides a useful schematic view for analysing the priorities of the Labour government faced with devaluation in 1967. Newton has put forward that the 1967 devaluation was the Labour government's reaction against the shift in international power, by which Newton refers to the growing Eurodollar offshore market that international institutions and central banks could not effectively regulate.[508] Furthermore, Newton asserted that this devaluation was the 'middle way' between deflationary economic policies and economic expansionism. Finally, Newton concluded that Labour's devaluation accompanied by 'concerted international action' was a life-prolonging treatment for the 'liberal socialist synthesis' that consisted of the 'Keynesian synthesis of full employment and an open international trading system', which Newton eventually connected with 'social democracy'.

[508] Newton,'The Sterling Devaluation of 1967'.

Although Newton did not clarify the definition of the synthesis of 'Keynesian' economic policies with the international free market post-World War II, this should be understood as the 'embedded liberalism' of John Ruggie.[509] To be more precise, this 'embedded liberalism' can be interpreted as the expansion of the role of social policies with functional public finance, and the movement for the removal of trade barriers led by the General Agreement on Tariffs and Trade (GATT) or the OECD. In Newton's argument, this embedded liberalism, particularly the Keynesian aspect, was combined with, or incorporated into, 'liberal socialist synthesis', and eventually, 'social democracy'.

However, reinvestigation should be made of Newton's schematic argument. The critical point here is that in this research, 'British social democracy' is not given any definition or characterisation. This issue can also be observed within the work of Whiting and Davis, in which 'British social democracy', without the clarification of what is meant by this, is applied for analysing the monetary and fiscal policies in the 1960s.[510] To address this, and for application to analysis of this thesis, the next section reconsiders and narrows down the concept of 'British social democracy'.

[509] Ruggie, *Constructing the World Polity*, pp.62-76.

[510] A similar argument to Newton, linking social democracy and monetary policies of Labour government in the 1960s, can be seen in Aled Davies, *The City of London and Social Democracy: The Political Economy of Finance in Britain, 1959-1979* (Oxford: Oxford University Press, 2017), pp.215-7. Regarding the argument of Whiting, see chapters 4 and 5 of this thesis.

6.2 For analysis of British ‘social democracy’

Even if limited solely into politics, ‘British social democracy’ was undoubtedly a multi-faceted concept linked with a variety of policy objectives and measures. However, to begin with, consideration will be given to a significant aspect extracted from Newton’s analysis: the ‘Keynesian’ economic policies of the 1960s.

For investigation of ‘Keynesian’ policies in the 1960s, Jim Tomlinson’s argument must be taken into account. Tomlinson has pointed out that the ‘Keynesian revolution’, demand management through a substantial sum of budgetary deficit as a means of achieving full employment, did not exist.[511] So how can the influential ‘Keynesian economics’ over the two decades following World War II be classified? As seen in chapter three of this thesis, a great methodological distance lies between the original general theory of Keynes and Keynesian economics, or neoclassical synthesis.[512] This metamorphosis of the original theory of Keynes into ‘timeless’ neoclassical synthesis, which Robinson repeatedly termed the ‘bastard Keynesian’, arose from the concept of the IS-LM arbitrary composed by Hicks, which incorporated microeconomic assumptions.[513] This shift led to, at least academically, demand management

[511] Jim Tomlinson, ‘Why was there never a ‘Keynesian Revolution’ in economic policy?’ *Economy and Society*, Vol.10, No.1, February 1981, pp.72-87.
[512] For the reinvestigation of the economic theory of Keynes, see Minsky, *John Maynard Keynes.*
[513] For the critique on uncertainty within neoclassical synthesis, see Joan Robinson, ‘What Has Become of the Keynesian Revolution?’ *Challenge*, Vol.16, No.6, 1974, pp. 6-11. The other significant element of ‘Keynesian’ or neo-classical economics was no doubt the Phillips curve, see Paul A. Samuelson and Robert M. Solow, ‘Analytical Aspects of Anti-Inflation Policy’, *American Economic Review*, Vol.50, 1960, pp.177-84.
In the eyes of post-Keynesian economists, Hicks’ theory metamorphosed the *General Theory* of Keynes into the timeless general equilibrium theory, which

with fiscal and monetary policies without any emphasis on budget deficits. This also gave rise to the dogmatic discipline of the supply of public goods such as by Samuelson, which is determined by marginal cost and marginal utility based on rational individuals, and the 'parable' production function.[514]

As a result, this inevitably produced the policy implication of demand management with a restrained scale of functional public finance, increase in capital stock and theory of human capital, and 'efficient' provision of public goods, which limits the governmental role on the basis of correction of the market and government failure, with no strong commitment to budget deficits.[515] Consequently, the role of public deficits was restricted, along with the penchant for sound finance within the discipline of neo-classical economics and school of

---

negates the intrinsic interdependence amongst monetary aspects, consumption, production and employment. See Hyman P. Minsky, 'The Essential Characteristics of Post Keynesian Economics', in Ghislain Deleplace and Esward J. Nell (eds.), *Money in Motion: The Post-Keynesian and Circulation Approaches* (Basingstoke: Palgrave Macmillan, 1996), p.71.
Regarding the significance of Keynes' *General Theory*, it is considered a critique on classical economics with incorporation of the concepts of time, uncertainty and the non-neutrality of money, then finding involuntary unemployment at the point of equilibrium. See Paul Davidson 'What are the Essential Elements of Post Keynesian Monetary Theory?' in Deleplace and Nell (eds.), *Money in Motion*, p.49.

[514] For the theory of Samuelson, see Paul A. Samuelson and William D. Nordhaus, *Economics*, *Thirteenth Edition* (New York: McGraw Hill, 1989). The term 'parable' production function was used by Samuelson over the so-called Cambridge capital controversy. Paul A. Samuelson, 'Parable and Realism in Capital Theory: The Surrogate Production Function', *The Review of Economic Studies*, Vol.29, No.3, 1962, pp.193-206. This dispute was raised by Robinson in 1953. Joan Robinson, 'The Production Function and the Theory of Capital', *Review of Economic Studies*, Vol.21, No.2, 1953-1954, pp.81-106. As this is out of scope of this chapter, for explanation of this controversy see G. C. Harcourt, *Some Cambridge controversies in the theory of capital* (Cambridge: Cambridge University Press, 1972).

[515] Neoclassical production function refers to the output of commodities determined from the quantity of labour and capital. This implies that capital formation and technological innovation would foster economic growth on the capital side. On the labour side, it mainly emphasises the theory of human capital to improve its productivity because this function deems population growth as an exogenous variable.

rational expectations.[516] This subsequently expanded to form a theoretical foundation for arguments ardently denying the efficacy of fiscal deficits: that public deficits and the issuing of bonds would prompt individuals to anticipate future increase in taxation, forcing them to reduce their current consumption.[517] The effects of public deficits would be counterbalanced, eventually leading to a theoretical foundation of the neutrality of its effects on the market economy.[518]

Of course there was significant distance between UK and US 'Keynesian' economics. However, it cannot be denied that the reflection and impact of 'Keynesian' economics on the policy side embodied into the functioning role of not only budget deficits but also fiscal and monetary policy in the UK. This chapter continues with the assumption that 'Keynesian' economics significantly influenced practical policy-making, despite the non-occurrence of a 'Keynesian revolution', in other words, the original work of Keynes underwent a significant metamorphosis.

Here, it must be emphasised that the 'Keynesian' economics of the 1960s should be considered as mixture of various policy measures for achieving a practicable level of full employment. Therefore, the complex interrelations among economic policies should be scrutinised. Investigation of, in particular,

---

[516] For explanation of the notable theories including life-cycle hypothesis by Modigliani and permanent incomes hypothesis by Milton Friedman, which provides the theoretical foundation for sound finance, see Richard E. Wagner, *Deficits, Debt, and Democracy: Wrestling with Tragedy on the Fiscal Commons* (Cheltenham: Edward Elgar Publishing Limited, 2012), pp.6-8.

[517] In the context of the three decades following the second World War, this criticism was directed towards functional finance. This concept was forged by Abba P. Lerner in the 1940s. For the renewal of academic interest and a brief explanation of this concept, see L. Randall Wray, *Modern Money Theory: A Primer on Macroeconomics for Sovereign Monetary Systems*, *second edition* (Basingstoke: Palgrave Macmillan, 2015), pp.199-200.

[518] James M. Buchanan, 'Barro on the Ricardian Equivalence Theorem', *Journal of Political Economy*, Vol.84, No.2, 1976, pp.337-42. Robert J. Barro, 'Are Government Bonds Net Wealth?' *Journal of Political Economy*, Vol.86, No.6, 1974, pp.1095-117.

the fiscal side in the context of the devaluation presents a means of analysis neglected in Newton's argument on the devaluation, 'liberal socialist synthesis' and 'social democracy'.

The next step is to identify the liberal aspect or tradition within post-World War II 'British social democracy' or 'liberal socialist synthesis'. It is generally agreed that the origin of British socialism can be traced back to the work of Robert Owen and David Ricardo. It is also broadly held that Owen was influenced by the utilitarianism of Jeremy Bentham, or the 'greatest happiness of the greatest number', so-called 'cardinal utility'.[519] In the realm of political thought the British liberal tradition was forged through the espousal of this utilitarianism attacking aristocratic government, and British 'classical' liberalism which advocated *laissez-faire* and a limited governmental role while seeking general welfare.[520] The work of Bentham laid the groundwork for the 'marginal revolution' of the 1870s, which became the dawn of 'modern economics', however, the Great Depression and two World Wars exacerbated social issues such as poverty and contributed to transformation of the British liberal tradition.[521] This created the path toward the rise in collectivism based on democracy as *laissez-faire* dwindled, while individualism, one of the foundations of British liberalism, remained.[522] Turner's account holds that, in this new British liberalism and reflected in the Beveridge Report, 'the collectivists [...] adopted a policy of "liberal socialism" or the "middle way", which subsequently became the

[519] Jeremy Bentham, *An Introduction to the Principles of Morals and Legislation* (New York: Dover Publications Inc., 1996), originally published 1789.
[520] Turner, *Neo-Liberal Ideology*, pp.24-5.
[521] This marginal revolution set the historical lineage to the theories of William Stanley Jevons, Carl Menger, Léon Walras, and Vilfredo Pareto.
[522] Ibid., pp.36-8.

foundation of the Butskellite post-war consensus' during the buoyant era of 'Keynesian' economics.[523]

While the collectivist aspect was subsumed into British liberalism, as a critique on 'modern economics', Keynes created a theoretical foundation to combine effective governmental macroeconomic intervention and liberal economic theory. Keynes focused on the concept of uncertainty within its theoretical framework and evinced that insufficient market forces could reach equilibrium, meaning markets easily reach equilibrium despite unemployment. This prepared the theoretical foundation for active government intervention and demand management within and through the market. This ground-breaking theory can therefore be placed in the lineage of the development of economic theories and liberal ideology. In sum, as seen above, it is evident that 'British socialism' inevitably encompassed liberal aspects, which in the post-World War II era were influenced by Keynesian economics. In this sense, Newton's term British 'liberal socialist synthesis', insofar as it refers to the mixture of Keynesian economics subsuming aspects of liberalism and individualism, and 'British socialism', including facets of collectivism, in the context of the three decades following World War II (excluding the international factors) might be considered an adequate description.

However, this espousal of the liberal, socialist and collectivist ideologies in Britain cannot be considered to directly reflect in the post-World War II British 'social democracy' in the context of the emergence of welfare states. Emphasis should not only be placed upon the global trend of quantitative 'Keynesian' economic management or the expanding scale of public finance, but also on qualitative aspects pertaining to economic policies, particularly in the social

[523] Ibid., p.57.

security field.[524] As Richard Titmuss and Thomas Marshall have suggested, social reform or social policies in the post-World War II era were different in quality and quantity from the origin of socialist movements in the late nineteenth and early twentieth centuries.[525] In a more comprehensive characterisation of the welfare state after World War II, Titmuss emphasised the redistributive and non-discriminatory objectives of social policies and Marshall stressed the evolution of social citizenships, which would resolve class conflict.[526]

---

[524] There are numerous explanations regarding the driving force behind the global trend of expansion of public finance. For example, Wilensky suggested that the trend of welfare expenditure depended not on socio-political factors but on economic growth, which created the convergence. Harold L. Wilensky, *The Welfare State and Equality: Structural and Ideological Roots of Public Expenditures* (Berkeley: University of California Press, 1975). Hayek emphasised monetary phenomena, suggesting that inflation and growing public expenditure mutually affect one another and are a cause of public expenditure expansion. See Friedrich A. Hayek, *The Constitution of Liberty* (London: Routledge, 2006), originally published 1960, chapter 21.

[525] In monetary terms, the 'welfare state' began to grow in the inter-war era however, it no doubt gained momentum through World War II. Titmuss, *Problems of Social Policy*. Titmuss emphasised social solidarity in the context of the British welfare state, which emerged amidst the bombing in World War II. Richard M. Titmuss, 'War and Social Policy', in Richard M. Titmuss, *Essays on 'The Welfare State'* (London: Allen and Unwin, 1958), pp.75-87. Peacock and Wiseman argued that the expansive governmental expenditure during the war could not be reduced swiftly and dramatically, resulting in governmental expenditure being kept high after the end of World War II, dubbed the Peacock and Wiseman (displacement) effect. Alan T. Peacock and Jack Wiseman, *The Growth of Public Expenditure in the United Kingdom* (Princeton: Princeton University Press, 1961). However, there are also arguments to explain the emergence of social policy with socio-cultural factors in the inter-war era. See Thane, *Foundations of the Welfare State*; and Susan Pedersen, *Family, Dependence, and the Origins of the Welfare State: Britain and France, 1914-1945* (New York: Cambridge University Press, 1993).

[526] According to Titmuss, the two major objectives of social policies are redistributive, and non-discriminatory objectives which refer to national insurance, education, medical care, housing and so on. Titmuss, 'The Role of Redistribution in Social Policy', p.16. Titmuss stressed the social integrative movement and sentiment during World War II as the causal force behind the modern British welfare state. See Richard M. Titmuss, *Problems of Social Policy* (London: HMSO, 1950), chapter 15. For the argument of Marshall, see Thomas H. Marshall, 'Citizenship and Social Class', in Thomas H. Marshall, *Citizenship and Social Class and other Essays* (Cambridge: Cambridge University Press, 1950), pp.1-85.

Therefore, the socialist movement of the late nineteenth and early twentieth centuries cannot be analysed as continuing directly into the post-World War II era. Of great importance here is to delineate the feature of ‘British social democracy’ in the 1960s as expansion or maintenance of redistributive economic measures and non-discriminatory social security provision, which gradually transformed or oscillated along political lines. However, focusing solely on equality and redistribution is insufficient because measures and their effects varied according to a range of factors. For example, consideration of equality requires reference not only to distribution of income and consumption but also to family structures, age cohorts, capability and so on. Moreover, redistributive effects vary according to increase in passive and unintended public expenditure with the advancement of an aging society, economic circumstances and interaction within the policy structures.[527]

In this sense, as emphasised by Titmuss, the non-discriminatory or universal aspects of social policies in the post-World War II era should be considered for delineating the priorities of the complex policy objectives, and evaluating ‘British social democracy’. As Michael Hill observed, one of the primary objectives of Wilson’s first Labour government was not only to achieve mitigation of inequality but also to reduce the significance of selectivity in the social security field, and

[527] As a notable example, the Thatcher government attempted to reduce fiscal deficits through the sale of council housing, however, this provoked rising rent, causing increased expenditure on housing benefit, perhaps bringing about unexpected redistributive effects within the housing benefit scheme.
Reduction in council housing costs accounted for more than 75 per cent of the decrease in public expenditure, however, the cost of housing benefit largely offset it. See David Mullins and Alan Murie, *Housing Policy in the UK* (Basingstoke: Palgrave Macmillan, 2006), p.53. Overall, attempts to reduce the scale of fiscal deficits are considered to have failed due to the increase in public outlays caused by the rise in unemployment. See Helen Thompson, ‘The Thatcherite economic legacy’, in Farrall and Hay (eds.), *The Legacy of Thatcherism: Assessing and Exploring Thatcherite Social and Economic Policies* (Oxford: Oxford University Press, 2014), pp.33- 68.

attempt to move towards a more universal social security system.[528] Therefore, in terms of social securities, 'British social democracy' or 'liberal socialist synthesis' and devaluation under the first Wilson government should be analysed through the interaction amongst policy aims, redistributive economic policies, qualitative aspects of social securities, and the forces that moved towards or upheld the liberal market, especially within the international monetary field. This requires reinvestigation of the link between the devaluation and the fiscal policies, including their objectives.

Prior to delineating the decision-making process surrounding devaluation, the limits of this chapter should be noted. Although it is imperative to consider a wider range of factors such as the parliamentary democratic process, nationalised industries and consensus politics in order to provide a more comprehensive picture of 'British social democracy', this chapter focuses on the link between devaluation and budgetary policies.[529] Moreover, this section has

---

[528] Michael J. Hill, 'Selectivity for the Poor', in Peter Townsend and Nicholas Bosanquet (eds.), *Labour and Inequality* (London: Fabian Society, 1972), pp.235-45.

[529] The parliamentary democratic process and the nationalised industries are out of scope of this chapter. However, it is worthwhile to mention research on the 'consensus' or 'compromise', and continuity of nationalisation and parliamentary democracy after World War II. As a leading advocate of the consensus theory, Paul Addison asserted that given the Conservative and 'non-socialist intelligentsia' had accepted Labour's demand, which was to advance the welfare state and a Keynesian management of the economy, Labour could achieve a 'peaceful revolution'. See Paul Addison, *The Road to 1945: British Politics and the Second World War* (London: Cox and Wyman, 1975), p.278. In contrast to this, Helen Mercer revealed that the Conservative Party aimed to remove monopolies in the industrial sector, whilst Labour recognised the significance of private profit seeking activity for the national economy. This political circumstance espoused with the support of the US in the context of the Cold War, and under the influence of civil servants led to the preservation of private companies or limited nationalisation. In this sense, Mercer concluded that the chain of compromise forged the post-World War II consensus. Helen Mercer, 'Industrial Organisation and Ownership, and a New Definition of the Postwar "Consensus",' in Harriet Jones and Michael Kandiah (eds.), *The Myth of Consensus: New Views on British History, 1945-64* (Basingstoke: Macmillan, 1996), pp.139-56. Michael Kandiah also criticised the consensus theory and

attempted to provide characterisation of ‘British social democracy’ focusing on its intrinsic liberal aspects and non-discriminatory redistributive factors, and to bridge ‘British social democracy’ with ‘liberal socialist synthesis’. However, it should be noted that ‘British social democracy’ might reasonably be distanced from ‘liberal socialist synthesis’ and further comprehensive analysis required, particularly concerning the extent to which liberal aspects are concentrated into these concepts. This section has attempted to narrow down the concepts of ‘British social democracy’ and ‘liberal socialist synthesis’ in order to deepen understanding of the interconnections between currency management and fiscal policies.

---

revealed a more adversarial and ‘polarised’ facet in politics with an analysis on the politicians’ level, detailing that there was a significant distance between Conservative and Labour in the fields of the welfare state and capitalism for economic growth. Michael Kandiah, ‘Conservative Leaders, Strategy - and ‘Consensus’? 1945-1964’, in Jones and Kandiah (eds.), *The Myth of Consensus*, pp.58-78. Regarding parliamentary democracy, Jim Tomlinson argued that Labour’s attitude toward the reform of parliamentary democracy or sovereignty after 1945 was ‘minimalist’ due to the experience of 1920s and 1930s anti-communism and anti-fascism movements. Tomlinson, *Democratic socialism and economic policy*, pp.290-305. This paved the way for the later half-baked planning policies by the Labour government. In contrast to the corporatist view of Keith Middlemas, that the industrial sector, such as trade unions, got involved in the government decision making process, Tomlinson revealed that tripartism ‘did not mean the sharing of decisions by government, but was basically a mechanism of trying to secure consent for decisions made by ministers.’ Ibid, p.296. Keith Middlemas, *Politics in Industrial Society: The Experience of the British System since 1911* (London: André Deutsch, 1979). For the critique on the argument of UK corporatism, see Peter A. Hall, *Governing the Economy: The Politics of State Intervention in Britain and France* (Cambridge: Polity Press, 1986).

6.3 The dispute over fiscal measures during preparation for devaluation

In the wake of the sterling crisis in the autumn of 1964, the Labour government prohibited open public discussion of the matter of devaluation. However, within the government and on an official level, the possibility of devaluation was considered alongside various other schemes.[530] One of the prominent groups assigned to these matters was the FU (Forever Unmentionable) Committee, which examined monetary arrangements and fiscal measures. In this section, particular focus is placed upon fiscal measures.

In April 1965, the FU Committee sought a devalued parity to follow the possible devaluation and accompanying measures.[531] Regarding the new rate, it was emphasised that the parity would need to avoid provocation of a negative reaction from other countries and ought to have a positive effect on the balance of payments deficit. This committee predicted that devaluation of sterling to $2.50 would improve the balance of payments current account by £330 million in the first year and £600 million after three years. The calculation taking into account the delay of the effects of devaluation on the balance of payments, the so-called J-curve effect, and possible removal of the import surcharge, put the estimated figures at £50 million over the following year and £230 million in the event of devaluation of sterling to $2.40.[532] Contrary to the potential effects of

---

[530] Oliver, 'The Management of Sterling, 1964-1967', pp.582-613. Newton, 'The Sterling Devaluation of 1967'.
[531] TNA, T312/1398, The Choice of a Rate and Accompanying Measures, Note by Economic Section, F.U. (65) 22 (Revise), 23 April 1965.
[532] Ibid.
The general agreement to remove the import surcharge alongside devaluation was reached on 19 July 1965. T312/1401, Note of a meeting held in Sir William Armstrong's room, Treasury Chamber, Great George Street, SW1, Monday 19

the devaluation on the balance of payments deficit, it was recognised that these two parities would place a 'rough magnitude' of deflationary effects on home demand through decrease in the real wage and increase in living costs. These deflationary effects were predicted at £170 million and £330 million respectively.[533]

Although the effects of the devaluation were expected to make British living standards vulnerable, a further £200-250 million worth of deflationary measures reducing home demand were required on the grounds of the improvement of the balance of payments and enhancement of confidence in sterling. In line with the requirement of further deflationary measures, the report suggested a variety of measures such as increase in motor vehicle license duties and purchase tax, freezing increases to personal allowances, reduction in investment allowances, and a rise in both income tax and the reduced rates.[534]

With prediction of a decline in real wages, in July 1965, concern over the possible effects of further deflationary measures on the economy was on the

---

July 1965, 3.30 p.m., F.U. (65) 9th Meeting.
The J-curve effect refers to the phenomenon that devaluation or depreciation of currency produces trade deficits in the short run. This is created by the behaviour of 'rational individuals', who can calculate their own marginal utility and transaction costs. They would increase imports in order to minimise the costs prior to the increase in import prices caused by devaluation. In the explanation of Krugman, 'confidence', which causes fluctuation of the risk premium, played a significant role on the above effects. The loss of confidence increases the risk premium which widens trade deficits, however, this would gradually return as real exchange rates drop and capital inflow increases. According to Krugman, fire sales would be one of the causes of capital inflow after devaluation or depreciation. See Paul R. Krugman, *Currencies and Crises* (Massachusetts: The MIT Press, 1995), pp.33-9. The apprehension that the replacement of the import surcharge with the devaluation would be recognised as the introduction of an import surcharge disguised as devaluation was reported in November 1965. TNA, T312/1398, Import Surcharge & Export Rebate, by Sir Denis Rickett, F.U. (65) 15, 2 April 1965.

[533] TNA, T312/1398, The Choice of a Rate and Accompanying Measures, Note by Economic Section, F.U. (65) 22 (Revise), 23 April 1965.

[534] TNA, T312/1398, Domestic economic policy in the event of devaluation, by Sir Alec Cairncross, F.U. (65) 13, 2 April 1965.

agenda.[535] The paper circulated in the FU Committee pointed out that if incomes policy or a wage freeze were imposed during a period of decline in real wages, this ‘would seem highly inequitable’.[536] However, it also asserted that if real wages were allowed to increase, this would ‘accentuate the wage-price cycle’.[537] A potential policy course that was proposed aimed at maintaining incomes wherever possible during price adjustment, with increases limited for certain periods:

> This might mean taking powers to confirm increase in wages and salaries for a period of, say, six months to exceptional cases approved by the Prices and Incomes Board and limiting increases for the ensuing six months to, say 4 per cent.[538]

With this, freezing dividends for a year was considered alongside a rise in company profit taxation in order to ‘prevent any marked shift in the distribution of income in favour of equity capital’.[539] Other fiscal measures associated with this argument are summarised in Figure 6-1. It is clear that one line of argument within the committee focused on hampering the wage increase in the wake of any devaluation while attempts were made to block this squeezed sum, which potentially would be added to the incomes of workers, to be distributed as dividends.[540] It should be noted that this idea was derived entirely from the introduction of corporation tax in 1965.

---

[535] TNA, T312/1399. Prices and Incomes Policy, by Sir Alec Cairncross, F.U. (65) 49, 26 July 1965.
[536] Ibid.
[537] Ibid.
[538] Ibid.
[539] Ibid.
[540] However, it should be pointed out that this idea was essentially conflictive with the possible fiscal measures (Figure 6-1), which included investment

Figure 6-1: Accompanying Measures Considered, 1965

The Autumn Budget: First Full Year	Effect on Final Expenditure	Effect on Domestic Output (£m. at 1966 prices)
Abolition of Export Rebate	20	15
Increase in Purchase Tax (Regulator)	65	40
Tightening of H.P. Restrictions	200	135
Sixpence on Income Tax	85	45
Suspension of Investment Allowances	85	65
Reduction in Public Corporations' Investment		
Intensified Credit Squeeze		
Total	440	300

Source: TNA, T312/1399. Accompanying Measures, Note by Economic Section, F.U. (65) 44 (Revise), 1 September 1965.

While the idea of further deflationary measures unfolded, ministers detailed their scepticism of such measures.[541] Devaluation, which was predicted to increase the inflation rate by between 3 and 4.5 per cent, was criticised from an egalitarian point of view. As the dispute over deflationary measures continued, incomes policy became a key focus point. For further measures to be implemented with an anti-inflationary effect, it was suggested that adjacent to devaluation there ought to be some propaganda campaign:

> At the very least it would be essential to mount a major propaganda campaign against wage and price inflation. There would perhaps be more chance of this succeeding in an emergency situation than at other times. And it could be backed with the threat of further disinflationary action in the event of failure.[542]

---

allowances.

541 TNA, T312/1401, Note of a meeting held in Sir William Armstrong's room, Treasury Chamber, Great George Street, SW1, Thursday 29 July 1965, 2.45 p.m., F.U. (65) 10th Meeting.

542 TNA, T312/1399. Accompanying Measures, Note by Economic Section, F.U. (65) 44 (Revise), 1 September 1965.

In order to achieve successfully deferment of existing agreements that regulated pay increases, reduction of working hours, and pay award implementation suspension, a propaganda campaign to provoke fear of inflation and further deflationary measures was considered propitious. In addition, a dividend freeze for a year with higher taxation of company profits was proposed to prevent the shift in the distribution of income in favour of equity capital. The initial concern surrounding devaluation involved not only the matters of sterling and financial position of the UK, but also equality and equity. In addition, the use of potential inflation and demand suppression measures as tools of propaganda to ease the introduction of tougher incomes policy was also explored.

In the autumn of 1966, discussions broadened the scope of potential measures. This included a rise in income tax and national insurance contributions (NICs) or selective employment tax (SET), cuts to the investment in nationalised industries and house building, and reduction in investment grants.[543] Conclusively, a variety of restrictive measures were considered to accompany devaluation, including regressive cuts in government expenditure and tax increases. Curiously, following this, there was little discussion over

[543] TNA, T312/1636. F.U. – 1966 Revisions, Accompanying Measures, Note by the Economic Section, Treasury, F.U. (66) 8, 1 September 1966. Introduced in 1966, SET was tax imposed on employers. The burden of this tax varied for men, women, boys and girls, and was classified into three categories. The first category was mainly for manufacturing and employers in this industry received the tax paid plus a premium. The second category mainly applied to nationalised industries, local governments, transport and agriculture, under which employers received a tax refund. The third category applied to service industries, the employers of which did not receive any refunds. Basically, the amount of SET refund was highest for men, descending for women, boys, and girls. Moreover, there were many reliefs and concessions within SET, such as for mitigating the tax burden of employers who hired part-time workers and encouragement of business in certain areas.

accompanying measures, particularly in the FU Committee, until the decision to undertake devaluation in 1967. However, as it will be shown below, these components resurfaced in the accompanying measures and 1968 budget. While the draft of various schemes was being completed, with the break out of the Arab-Israeli Six Day War in June of 1967, pressure was placed on the foreign exchange market. Moreover, in September 1967, hire-purchase relaxation put pressure on the foreign reserves, and the dock strikes in Liverpool and Manchester on 18 September spread to strikes in Hull and London, causing a drain on the UK foreign reserves.[544] As crisis loomed, devaluation and its accompanying measures arrived abruptly in November 1967.

6.4 The accompanying measures to the devaluation and preparation for the 1968 budget

Although the situation surrounding the balance of payments was gradually worsening, the estimate of economic growth in real terms of GDP, which was approximately 4 per cent, provided the Inland Revenue and the Treasury with a sanguine outlook in October 1967.[545] During this respite, in a meeting chaired by the Treasury's Sir William Armstrong, it was considered that rather than tax reduction, an increase would be required. It was noted that the

---

[544] Blackaby pointed out that the British application to join the EEC prompted expectations of possible sterling parity rearrangement within the financial market, potentially also strengthening speculative pressure on sterling. F. T. Blackaby, 'Narrative, 1960-74', in F. T. Blackaby (ed.), *British Economic Policy 1960-74: Demand Management*, *NIESR Students' Edition* (Cambridge: Cambridge University Press, 1979), p.40.

[545] TNA, T171/1414, Note of a meeting held in Sir William Armstrong's room, 26 October 1967.

present high level of public sector deficit was only tolerable in a real balance of payments situation. The other remedy of cutting public expenditure significantly was in practice not available.[546]

This meeting also discussed increase in various means of taxation for the next annual budget. Officials perceived great difficulties in the field of income tax.[547] The meeting considered the simplification of the personal allowance structure with abolition of the scheme of dependent relatives and other 'secondary allowances', which it was highlighted 'could save a substantial sum'.[548] However, the situation was further complicated since there existed conflictive pressure to reduce income tax burden at the £20-25 per week level, a measure dubbed 'give and take'.[549]

Immediately prior to devaluation, in November 1967, the Inland Revenue (IR) assessed a possible increase in direct taxation consisting of an increase in the standard income tax rate and reduced rates, corporation tax and adjustment of personal allowances.[550] With respect to income tax, the IR considered the following options: increase by 2.5 per cent in the standard rate; increase by 2.5 per cent in standard and reduced rates; increase by 5 per cent in the standard rate and 2.5 per cent in reduced rates (Figure 6-2).[551]

---

546 Ibid.

547 Other attempts to raise taxation also faced difficulties. Excise duties such as those on alcohol and tobacco were opposed by ministers, and fuel tax was not a favourable scheme while the Suez surcharge was on. Therefore increase in the burden of vehicle excise and SET was considered.

548 TNA, T171/1414, Note of a meeting held in Sir William Armstrong's room, 26 October 1967.

549 Ibid.

550 TNA, T171/1414, Possible Increase in Direct Taxation Note by the Inland Revenue, 2 November 1967.

551 The highest surtax was 50 per cent, and the marginal tax rate on the highest

Figure 6-2: Estimation of the impact of an increase in Income Tax, 1967

	Increase of 2.5% in the standard rate	Increase of 2.5% in the standard and reduced rates	Increase of 5% in the standard and 2.5% in reduced rates
First £100 taxable income	20% (unchanged)	21.25% (in place of 20%)	21.25% (in place of 20%)
Next £200 taxable income	30% (unchanged)	31.25% (in place of 20%)	31.25% (in place of 20%)
Thereafter at standard rate	42.5% (in place of 41.25%)	42.5% (in place of 41.25%)	43.75% (in place of 41.25%)
The number of affected tax payers	12.5 million	22.5 million	22.5 million
Married women who are working	0.5 million	2.75 million	2.75 million

TNA, T171/1414, Possible Increase in Direct Taxation Note by the Inland Revenue, 2 November 1967.

Regarding personal allowances, the IR considered two schemes to finance the cost of increases in family allowances (FAM), which were gradually increased throughout the late 1960s.[552] Firstly, the IR estimated that the reduction of £15 per year in child allowance for second and subsequent children would yield £24 million in the first year and £30 million in a full year.[553] The second scheme considered was a reduction of £30 in the first reduced rate band at 20 per cent to the first £70 taxable income, with an increase of £10 in the single and married allowances. This was estimated to save £19 million in the first year and £24 million in a full year. The first and second schemes

income bracket was over 90 per cent.

552 The family allowance was 40 pence a week for the first and second child, and for the third and subsequent children was 50 pence. In October 1967, a temporary increase to 75 pence a week was made for the fourth and subsequent children. In April 1968, the amount of family allowance for the second child was increased to 75 pence a week and to 85 pence a week for the third and subsequent children. In October 1968, further increases were made to 90 pence a week for the second child and 1 pound a week for the third and subsequent children. There was no statutory obligation to increase the family allowance, for which primary legislation was required. These figures were the increases set in legislation. See House of Commons, Social Security Fourth Report: Child Benefit, printed on 4 March 1999, Appendix 1 and Annex 1: https://publications.parliament.uk/pa/cm199899/cmselect/cmsocsec/114/11401.htm, (accessed on 27.7.2018.)

553 TNA, T171/1414, Possible Increase in Direct Taxation Note by the Inland Revenue, 2 November 1967.

combined would save £43 million in the first year and £54 million in a full year. This clearly shows that the IR considered financing the costs of increasing family allowances through expansion of the income taxation base.

Regarding corporation tax, the IR considered a possible change in the rates, with increases to 42.5 per cent or 45 per cent.[554] However, the report pointed out the difficulties associated with an increase in the corporation tax rate. Firstly, Chancellor James Callaghan declared that the introduction of corporation tax at a rate of 40 per cent in 1965 was not intended to put extra burden on businesses, and that its reform in 1966 was a 'transitional factor' so that even if rates were maintained in 1968 it would be recognised as a tax increase within businesses. Therefore, an increase in the rate of corporation tax was regarded with scepticism. Secondly, the IR estimated possible dividend levels under potential corporation tax rates. It was put forward that a company would be better off with 39 per cent gross dividends in its profits under a 42.5 per cent corporation tax rate and 27 per cent gross dividends under a 45 per cent corporation tax rate. These figures were well below the average distributed profits in dividends, 52 per cent, thus the report concluded that this increase would create an 'even greater disadvantage' for companies.[555] Thirdly, officials at the IR were mindful that an increase in corporation tax would aggravate the balance of payments deficit, discouraging the inflow of foreign investment, especially from the United States which had an 8 per cent higher company taxation than the UK. Finally, an increase in the corporation tax rate was predicted to encourage companies to switch their means of finance from equity capital to loan capital (debt), which would ultimately lead to a drought of new equity issues and the erosion of the corporation tax base. It is clear that the IR

[554] Ibid.
[555] Ibid.

demonstrated reluctance to implement a higher burden of corporation tax in the 1968 budget.[556]

In another field, the Chancellor aimed to gain extra revenue with SET through abolition of the additional payments to manufacturers and excise duty on vehicles.[557] However, the IR asserted that the change would be recognised as 'vacillation by the Government' and would provoke disbelief from 'industrialists'. [558] With respect to purchasing tax, discussion was made surrounding possible rates increase and the widening of the tax base. The Chancellor was in favour of widening the tax base as he considered it useful for accession to the EEC, bridging the gap in taxation between the UK and EEC.[559] Therefore, at the stage immediately before the devaluation, the IR considered extra burden through income tax with expansion of its taxation base, alongside increase in purchasing tax and excise duties. Purchasing tax amendments were backed by the Chancellor, who was mindful of possible future accession to the EEC.

---

[556] Ibid.

[557] TNA, T171/1414, Possible sources of extra revenue: SET and Vehicle Excise Duties, 2 November 1967.

[558] Ibid.
In the field of customs, excise duties and purchasing tax, consideration was given to the increase of tax on a variety of goods, which presented a range of difficulties. Firstly, further increase in tobacco duty was predicted to yield little additional revenue. Secondly, the adjustment of taxation on alcohol was regarded with concern. The increase in the general rate by 10 per cent would produce £45 million, however, if taxation yielding just £10 million on spirits were excluded, it would provoke political issues, presenting as an increase in the burden on 'working men's beer' and not the 'the director's spirits'. More significantly, duty on oil was regarded as difficult to increase due to additional taxation that had been imposed during the conflicts in the Middle East. See TNA, T171/1414, Customs and Excise Taxation Prospects 1968-69, 2 November 1967.

[559] TNA, T171/1414, Customs and Excise Taxation Prospects 1968-69, 2 November 1967.

Contrary to the preference of the IR for increase in direct taxation, the Secretary to the Budget Committee, Robin Butler, reported that the Chancellor was keen to retain the 'light and shade' on direct taxation in the 1968 budget.[560] A fiscal package consisting of an increase in the corporation tax rate, reduction in standard rates, reduced rates or an increase in personal allowances was considered. However, this was recognised by the IR as 'a re-distribution of taxation from distributed to retained profits and thus contrary to the policy underlying the 1965 Finance Act', which aimed to switch resources from dividends to investment.[561] Butler justified the reduction of income tax rates in order to mitigate the impact of the bracket creep caused by increase in money income. Butler then compared the possible effects of reduction of the burden of income tax, with an increase in the corporation tax rate to 45 per cent, and concluded that this arrangement would produce a 'fairly substantial increase in revenue'.[562] It is clear that key issues leading up to devaluation in late 1967 were the arrangement of the tax burden, the scale of the budget, which ought not hamper the balance of payments deficit, and protecting business interests by not increasing corporation tax rates. This dispute fed through to the measures that accompanied the devaluation in November.

The above considerations of fiscal measures were significantly affected by the devaluation. In the wake of the decision to devalue, accompanying measures were announced on 16 November. However, the documents regarding the decision process are not present in archives, hence the following is partly drawn from the account of Sir Alec Cairncross.[563] According to

[560] TNA, T171/1414, 'Light and Shade' in the next Budget, Butler to Workman, 6 November 1967.
[561] Ibid.
[562] Ibid.
[563] Cairncross, *Managing the British Economy*, pp.183-91.

Cairncross, the most prominent dispute was over the scale of the accompanying measures. He recognised that £600 million in budget saving was prerequisite to make devaluation effective. Contrary to this, the Chancellor opposed this scale of accompanying measures owing to his concern over the loss of backing for the Labour Party. The Prime Minister and the Chancellor were against increases in income tax in particular, and sought to reduce the income tax rate by 2.5 per cent, opposing the line taken in previous consideration of accompanying measures. The package that the Prime Minister and Chancellor favoured included doubling the duty on fuel oil to protect the coal-mining industry, trebling betting duties, and raising the corporation tax rate or imposing a tax on dividends.[564] On 15 November the Chancellor presented a £500 million package which consisted of £200 million worth of cuts in public expenditure; the withdrawal of £100 million in SET premia except in the Development Areas; a £100 million reduction in export rebates; an increase in the corporation tax rate by 2.5 per cent; the tightening of hire purchase restrictions on motor vehicles; an increase in the Bank Rate; and credit restrictions.

However, the Chancellor faced a significant backlash over the proposed accompanying measures. The most prominent opposition was from the Bank.[565] Governor of the Bank of England, Sir Leslie O'Brien, stated that 'defeat' had come after three years of strenuous efforts by the Labour government to maintain the parity. O'Brien asserted that the accompanying measures would be 'insufficient' and placed 'unfavourable impact' on exchange markets via

[564] Regarding the dispute over corporation tax on dividends in 1965, see chapter 4 of this thesis.

[565] BoEA, G41/2, Governor to the Chancellor, 17 November 1967.

provocation of a sceptical view from foreign observers.[566] He was mostly concerned with looming inflation after the devaluation, which would occur through increase in import prices. The Governor therefore urged the Chancellor to introduce measures to reduce aggregate domestic demand. O'Brien's ardent proposal consisted of a 2.5 per cent increase in income tax and cuts in government expenditure, singling out the spending programmes. In addition, he urged the government to defer the announcement of 'an increase in social benefit for the worst off'.[567] Moreover, the intention of the Bank was communicated unambiguously in a letter dispatched on 12 December 1967, after the devaluation had taken place. O'Brien wrote to the succeeding Chancellor, Roy Jenkins, that £400 million in budgetary saving would 'have a very much smaller effect on real demand'.[568] He also criticised the increase in corporation tax, stating that:

> Taken together with the increase in corporation tax and the monetary measures, they mean the bulk of the expected deflationary effect of the devaluation package bear in the first instance on companies. Very little indeed is to come from reduced claims on resources from actual public sector spending and none at all from consumption directly financed by the public sector through unselective social services.[569]

O'Brien conclusively urged cuts in public spending, including the 'sacrosanct' house building, and tougher incomes policy. As his rationale for backing reduction in public spending instead of taxation, he explained that direct

[566] Ibid.
[567] Ibid.
[568] BoEA, G41/2, Governor to the Chancellor, 12 December 1967.
[569] Ibid.

taxation would have disincentive effects and indirect taxation would create inflationary pressure.

It is clear that O'Brien favoured regressive fiscal measures in order to avoid disturbing effects on the exchange market, taking a line which was significantly conflictive with the Prime Minister and the previous Chancellor. The Bank strenuously urged its own package of accompanying measures at the time of the devaluation. Contrary to the requirements of the Bank, Chancellor of the Exchequer James Callaghan and the Prime Minister had been keen to defend the level of fiscal spending.[570] On 17 November, Callaghan had made an 'indignant' reply to the expression of disappointment by O'Brien with the size of accompanying measures that 'flatly refused' to reconsider the package within the Cabinet and suggested 'we could perhaps choose a lower or float.'[571] It is clear that what Callaghan attempted to defend was the fiscal spending, and he used further devaluation or floating as a threat or bulwark against the pressure for spending cuts.

The implemented measures were tighter hire purchase restrictions on motor vehicles, restrictions on bank lending to the private market excluding the exports business, and the increase in the Bank Rate from 6.5 per cent to 8 per cent.[572] The package agreed is detailed below in Figure 6-3.

---

[570] The intention of the Prime Minister to defend the level of public expenditure can be seen in numerous accounts. MacDougall reminisced that the Prime Minister had attempted to refuse cuts in public expenditure, which led him to consider floating under the sterling crisis in November 1964. MacDougall, *Don and Mandarin*, p.155.

[571] Cairncross, *The Wilson Years*, p.248.

[572] TNA, T331/36, telegram from Hubback to Maude, 22 November 1967. Regarding hire purchase restrictions, the minimum required deposit on vehicles was raised from 25 per cent to 33 and one third per cent, and the maximum repayment period reduced from 36 to 27 months. Regarding restrictions on bank lending, guaranteed finance for exporters and the shipbuilding industry

Figure 6-3: Accompanying Measures (agreed on 16 November 1967, £ mil.)

Measures	Yield	Effect on Demand
Hire Purchase restrictions on cars	–	70
Bank Rate and credit restrictions	–	100
Fuel Oil	20	15
Corporation Tax	85	25
Removal of SET premium	100	45
Reduction in defence expenditure	110	110
Reduction in nationalised industries' expenditure	75	75
Export Rebate	100	–
Reduction in civil expenditure	30	30
Total	520	470

Source: TNA, T227/2452, from P. R. Baldwin to Rampton, 16 November 1967.

6.5 From devaluation to the 'draconian' 1968 budget

In the aftermath of devaluation, various concerns were raised surrounding the budget regarding inequality, inflation, and encouragement of exports. Peter Shore, Parliamentary Private Secretary, was concerned that cuts in government expenditure without reduction in defence expenditure would 'prove to be counter-productive'.[573] In line with Peter Shore, Thomas Balogh, Economic Adviser to the Prime Minister, also asserted the importance of defence cuts, and the formation of a social package on a 'strictly selective basis'.[574] While

were excluded.

[573] TNA, PREM13/2066, Peter Shore to the Prime Minister and Roy Jenkins, 2 January 1968.

[574] TNA, PREM13/2066, Economic Strategy and the Short and Medium Term Appreciation, Thomas Balogh to the Prime Minister, 3 January 1968. This paper

opinions regarding cuts in defence expenditure were widely shared within the government, social expenditure and taxation became a topic of contention.[575] Balogh emphasised that the incomes policy would not be conflictive with the budget, and highlighted that tax reform targeting selected fields in order to tackle the demand-pull and cost-push inflation was required to avoid a 'disastrous' result from the devaluation.[576] Prime Minister Harold Wilson also expressed his concern regarding the effects of inflation, which would potentially dilute the effects of devaluation, and he remained an advocate of tougher governmental policies to check inflation.[577] It is evident that while there existed a mire of conflict over social policies and taxation reform, it was a priority to construct a budget that would ensure the devaluation was effective.

While conflict over the budget intensified in the cabinet, the initiative was taken by James Callaghan's successor, Roy Jenkins, the new Chancellor of the Exchequer. Jenkins, generally considered a key player in the formation of

---

covered a wide range of measures such as increase of the tax rate on unearned income and excessive dividends. The Treasury also urged cuts in defence expenditure by over £130 million between 1968 and 1970, in T227/2453, F.U. (67) 19 (4th Revise), Accompanying Measures: Public Expenditure, 14 November 1967.

[575] While the 1968 budget was formed, on 16 January 1968, the Prime Minister announced cuts in defence and civil expenditure by over £200 million, accelerated withdrawals of defence forces from the Persian Gulf and Far East, implementing the so-called East of Suez decision, postponement of raising the school leaving age, reintroduction of prescription charges, cuts in expenditure on council housing and road improvement, and a rise in the rate of corporation tax to 42.5 per cent. See, TNA, T171/719, Economic Report on 1967 (London: HMSO, 1967).

[576] TNA, PREM13/2066, Economic Strategy and the Short and Medium Term Appreciation, Thomas Balogh to the Prime Minister, 3 January 1968.

[577] TNA, PREM13/2056, Copy of Minute by the Prime Minister, December 28 1967. Wilson made clear his aim to continue to check inflation, continuing the policies set by the White Paper, Prices and Incomes Policy (Cmnd. 3235: Prices and Incomes Policy after 30th June 1967). Concomitantly, Peter Shore expressed the governmental attitude toward the incomes policy which declined a 'norm' of a 3.5 per cent increase for earnings. TNA, PREM13/2056, Prices and Incomes Policy, Note of a meeting between Ministers and Leaders of the CBI held in the room of the Secretary of State for Economic Affairs, 16 January 1968, 11.00 a.m.

Labour's 'draconian' budget, initially urged a £1,000 million total increase in taxation and cuts in expenditure.[578] However, Jenkins was mindful that the possible expenditure cuts and increase in direct taxation would put harmful effects on the economy through reduction in savings and working incentives, and increase in industrial costs, while indirect taxation would have repercussions on wage movement through the increase in living costs. This provoked consideration of structural arrangements in taxation and social security expenditure.

6.5.1 Selectivity in the family allowances, direct taxation and external pressures

Although Chancellor of the Exchequer Jenkins recognised the potential negative impact of regressive economic policies on the political climate, he strongly urged cuts in public outlays. Jenkins estimated that the cuts in public expenditure on the civil side would be £327 million in 1968-69 and £372 million in 1969-70, and considered making further savings through 'give and take' adjustments to offset increased family allowances (estimated public expenditure for 1967-1969 is indicated in Figure 6-4).[579]

[578] TNA, PREM13/2066, Cabinet: Public Expenditure, Annex A, 3 January 1968.
[579] TNA, PREM13/2066, Cabinet: Public Expenditure, Annex D, 3 January 1968. In terms of the social security package, the Chancellor was concerned with the suspension of uprating national insurance benefits. See TNA, PREM13/2066, Cabinet: Public Expenditure, Annex D, 3 January 1968. On the other hand, various business associations urged the Chancellor to select a similar scheme of selectivity and cuts in expenditure rather than increase in taxation. See T171/1407, Her Majesty's Treasury Chancellor's Meetings, Treasury Summary on Budget Representations, Note by the Secretaries, C.M. (68) 21, 19 February 1968. The Chancellor made cuts in capital expenditure on education and

Figure 6-4: Estimated Public Expenditure 1967-68 to 1969-70
(£ Millions, 1967 Survey Prices)

	1967-68	1968-69			1969-70		
	Total	Total as at the end of 1967	Reductions	Revised Total	Total as at the end of 1968	Reductions	Revised Total
Defence Budget	2,218	2,167	–	2,167	2,225	−110	2,140
Civil Programmes:							
Social Security	2,909	3,106	–	3,106	3,126	–	3,126
Education (including local libraries and museums)	1,989	2,103	−39	2,064	2,205	−58	2,147
Health and Welfare (with welfare foods)	1,619	1,672	−29	1,643	1,737	−31	1,706
Housing	1,018	1,098	−27	1,071	1,124	−55	1,069
Roads	560	632	−53	579	679	−69	610
Other transport (excluding British Rail District Grant)	110	126	−2	124	139	−5	134
Home Departments Service (excluding Home Defence)	472	506	−6	500	532	−12	520
Home Defence	22	27	−14	13	27	−20	7
Civil Technology	234	223	−10	213	233	−15	218
Overseas Services	338	371	–	371	367	–	367
Investment grants	189	440	−80	360	380	–	380
Agriculture	374	388	–	388	388	–	388
SET additional payments and REP	170	156	–	156	131	–	131
Environmental Services	732	797	−26	771	839	−27	812
Other expenditure	1,433	1,566	−2	1,564	1,396	−14	1,382
Civil Service manpower	–	–	−12	−12	–	–	–
Contingency allowance	–	–	–	–	75	–	75
Total	14,387	15,378	−300	15,078	15,628	−416	15,212
Increase in Health Stamp (treated as revenue in national accounts)	–	–	−25	–	–	−25	–
Total Savings	–	–	−325	–	–	−441	–
National Industries' Capital Expenditure	1,676	1,695	–	1,695	1,564	–	1,564

Source: Cmnd. 3515, Public Expenditure in 1968-69 and 1969-70 (London: HMSO, 1968), p.14.

---

reduction in student grants. Alongside these cuts, there was the restoration of a prescription charge (2s. 6d.), which provoked marked criticism. Although, in particular, the prescription charge was exposed to condemnation as a 'specifically Conservative policy which is wholly alien to Labour's concept' and would provoke 'maximum bitterness', the Chancellor pushed to reintroduce the prescription charge. See TNA, PREM13/2066, Cabinet: Public Expenditure, Annex E, 3 January 1968. The Prime Minister faced a significant backlash from 150 members of parliament against the reintroduction of a prescription charge. PREM13/2805, Petition to the Prime Minister, 15 February 1968. On 8 January 1968, Jenkins stated the need to make concessions due to calls for extending the exemption of the prescription charge further than the previous system. See T331/129, Note for the record: Public Expenditure Cuts, 8 January 1968.

Jenkins' drive for 'draconian' policies accelerated with the incessant and significant pressure from the IMF and Working Party 3 at the OECD. During the budget formation process, it was reported that the IMF 'would no doubt be happier if as much as £500 million of the increase in taxation took effect in 1968-69'.[580] Moreover, it was also reported that Working Party 3 held a pessimistic view on the estimated economic growth rate and its level of exports, thus it anticipated that a £400 million tax increase would be introduced, which would foster a 'favourable impression.'[581] In addition, Working Party 3 expected between £600 and £700 million in budget reduction, and it preferred cuts in expenditure over increase in taxation on the grounds that cuts would have less disincentive effects on the economy.[582] In the face of pressure from international institutions, the Chancellor broadly agreed with Sir William Armstrong concerning raising between £400 million and £600 million in additional revenue, with £500 million or above having a 'psychological advantage'.[583] Moreover, external influence was felt when determining the scale of the budget: in the eyes of George Brown, then Secretary of State for Foreign Affairs, the scale of the budget was changed due to the announcement of the US economic measures on 1 January 1968. This figure, which had initially been £850 million, changed to £1,000 million due to further cuts in government expenditure at home and abroad and a 'mammoth' rise in taxation.[584]

---

[580] TNA, T171/1425, Minutes of a meeting in the Chancellor of the Exchequer's room, Thursday 29 February 1968, 4.30 p.m.
[581] T171/1409, Chancellor's Meeting – Official Consultations C.M. (O)(68) 2nd Meeting, Minutes of a meeting in Sir William Armstrong's room, Wednesday 24 January 1968.
[582] TNA, T171/1425, Minutes of a meeting in the Chancellor of the Exchequer's room, Friday 8 March 1968, 3.00 p.m.
[583] TNA, 171/1408, Budget 1968: R. T. Armstrong's Minute to the Chancellor, Note by the Secretaries, C.M. (68) 23, 19 February 1968.
[584] TNA, PREM13/2066, Extract from record of meeting between the Secretary of State for Foreign Affairs and the US Secretary of State at the State

Meanwhile, the use of 'give and take' as a means of reducing public expenditure presented one of the most challenging issues of the 1968 budget. On 8 December 1967, First Secretary of State Michael Stewart suggested to the Prime Minister that his work as co-ordinator of the social services should be based on 'the determination of priorities within a block allocation of resources for the social services as a whole.'[585] Stewart held that his co-ordination should be operated for 'not only the maintenance of a coherent social policy and the laying out of plans for the future with all studies that these involve, but also – in the context of limited sources – the establishment of priorities both within and between the departments to ensure that the most effective use is made of the resources that are available' in the fields of family poverty, the elderly and the handicapped.[586] Discussion was made of 'the efficacy and economic implications of benefits in cash as against benefits in kind' and 'the merits in different contexts of selectivity and the different forms which this can take'. Stewart wrote that the latter would 'involve us in some study of income tax in reverse (if only to demonstrate finally its impracticability) and the possibility of other machinery to rationalise means-testing generally.'[587]

On 13 December 1967, a response from the Prime Minister to Michael Stewart stated his approval of the First Secretary's approach, which to him represented 'the first time an attempt has been made in this way to look at the social services as a whole.'[588] The Prime Minister urged Stewart to proceed

---

Department, 11 January 1968, 9.30 a.m.

[585] TNA, CAB 164/661, J. J. Nunn to the Prime Minister, Development of the Social Services, 12 December 1967.

[586] TNA, CAB 164/661, Michael Stewart to the Prime Minister, Development of the Social Services, and Memorandum by the First Secretary of State, 8 December 1967.

[587] Ibid.

[588] TNA, CAB 164/661, R. J. Dawe to Michael Stewart, 13 December 1967.

before the Chancellor made moves with his 'cancellorian [*sic*] pressure'.[589] On 15 December, Michael Stewart informed the Chancellor, mentioning that ministers were considering reductions in the expenditure but that he wished to discuss with the Chancellor how he 'could best be associated' with the potential decisions that loomed before him.[590] Evidently, a line in contrast with the initiative of the new Chancellor, emphasising the significance of social spending, was raised by Stewart, and backed by the Prime Minister.

While the reconsideration of social expenditure commenced, a paper sent by Kaldor to the Chancellor resonated with those who supported cuts in public expenditure. On 15 December, Kaldor suggested that any family would qualify for either the taxable family allowance or income tax child allowance.[591] Under this, families would lose the benefit of 8 shillings a week under the existing allowance for the second child and 10 shillings a week for the third and subsequent children. This scheme meant that the greater the income of a family, the less allowance would be received, with amounts tapering-off according to incomes and the standard rate tax payers not receiving the allowances.[592] Kaldor calculated that this scheme would reduce costs of £273 million by £60 million a year and asserted that it 'would make one important form of welfare payment selective instead of universal and do it in a way that fully protects the

[589] Ibid.
Dawe remarked that some may oppose Stewart's approach, stating that such 'pressure will certainly come and the approach suggested by the First Secretary will mean that the problem can be looked at as a whole with proper regard for priorities.'
[590] TNA, CAB164/661, Michael Stewart to the Chancellor of the Exchequer, 15 December 1967.
[591] TNA, T171/831, Family Allowances, Nicholas Kaldor to the Chancellor, 15 December 1967.
[592] Ibid.
The consideration over how to finance or offset the increase in the family allowances expenditure was raised by Sir Alexander Johnson, Chairman, Board of Inland Revenue. TNA, T171/831, Family Endowment: Possible Tax Change, Sir Alexander Johnson to the Chancellor, 8 September 1967.

most vulnerable members of the community'.[593] It should be noted that the concept of Kaldor's claw-back scheme was akin to child tax credit with the absence of a means test and the requirement to be in work.[594] Contrary to the IR's judgment that Kaldor's scheme would simply lead to a decrease in income tax child allowance, this scheme would actually provide a fixed amount of allowance for non-income tax payers and the amount for reduced rate income tax payers would taper within the income tax structure, with no payment for standard rate tax payers. This meant that the income groups below the standard tax rate qualified to receive tax credit. The amount of this tax credit would be the amount of tax imposed on those in receipt of the first step of reduced rates, plus family allowance. Conceptually, this tax credit would be offset at the point of the standard income tax rate.[595]

On the other hand, Michael Stewart proposed a different scheme which would reduce income tax child allowance for recipients of the family allowance, thus enabling a 'recoup in tax from standard rate taxpayers the net (after tax)

---

[593] TNA, T171/831, Family Allowances, Nicholas Kaldor to the Chancellor, 15 December 1967.

[594] The procedure for payment of the allowance differs. Current tax credits are paid on the basis of means testing, however, family allowances in 1968 were paid weekly and then clawed back through income tax payments.

[595] Later, this concept gathered public attention both under the Thatcher government, which considered Milton Friedman's breed of negative income tax, and under the Blair government with its introduction of tax credits. The Labour government began to consider the possible introduction of negative income tax in 1968. Several disadvantageous points were raised, one of which was similar to those raised surrounding the family allowances: the complexity of the tax system and administrative difficulties. In addition, it was held that negative income tax would incur potential harmful effects on saving and the willingness and incentive to work. Odgers, of the Cabinet Office, wrote that a 'Negative Income Tax would indeed mean taking a sledgehammer to crack the admittedly hard nut of the family poverty of the low wage-earner or the wage-stopped men,' CAB164/441, Working Group on Negative Income Tax, from P.R. Odgers to Richard Crossman, Secretary of State, 15 April 1969. For the Conservative Party's consideration of negative income tax, see Florence Sutcliffe-Braithwaite, 'Neo-liberalism and Morality in the Making of Thatcherite Social Policy', *The Historical Journal*, Vol.55, No.2, 2012, pp. 497-520.

benefit they would otherwise derive from the family allowances increases of 7s. per FAM child in April.'[596] This calculated the reduction in income tax child allowance by £30 a year.[597] It is clear that Kaldor's scheme, the original claw-back, would remove the benefit for standard rate taxpayers from family allowances, and Michael Stewart pushed a 'give-and-take' scheme which would recoup the amount of increase in family allowances from standard rate taxpayers without reducing or excluding them from the family allowances.

Behind Stewart's proposal, there existed concern over the arrangement of supplementary benefits and the family allowances. Stewart suggested an increase in supplementary benefits, and the increase in the family allowances to be accompanied by 'counter-balancing tax adjustments'.[598] Here, there were concerns that the increase in supplementary benefits would not be beneficial for low-wage earners and those in the wage-stop. In this sense, expansion of social expenditure, particularly increase in family allowances complemented by supplementary benefits, was also considered a prerequisite measure in order to maintain sound incomes policy, within the 3.5 per cent ceiling.[599] The report on the Trades Union Congress conference put forth the argument that both schemes would mitigate pressure on incomes policy and family allowances

[596] TNA, T171/831, FAMILY ALLOWANCES, Note by the Board of Inland Revenue, (A) Professor Kaldor's Scheme, 22 December 1967.
[597] Ibid.
[598] TNA, PREM13/2066, Cabinet: Public Expenditure, Annex E, 3 January 1968. Michael Stewart emphasised the importance of family allowances, stating that the 'poorest families consist mainly of low wage earners in full time employment with children. To help them some increase in family allowances would need to be considered'. See T227/2453, Devaluation, Social Security Consequences: Memorandum by the First Secretary of State, 22 November 1967.
[599] PREM13/2057, Prices and Incomes Policy (C (68) 45, 46 and 50), Sir Burke Trend, Cabinet Secretary, to Prime Minister, 28 February 1968.
On 16 November 1967, Kaldor also warned the Treasury of the ineffectiveness of supplementary benefits on 'ordinary wage earners'. See T227/2452, Accompanying Measures: Family Allowances, Nicholas Kaldor to Sir William Armstrong, 16 November 1967.

would cover low-paid families that were out of range of supplementary benefits, and an increase in supplementary benefits would mitigate hostility surrounding the 'unpopular' unselective family allowances.[600] Therefore, Stewart's proposal can be considered propitious to gain concessions from the TUC, and to prevent uneven distribution of benefits and allowances.

Meanwhile, Jenkins stated that 'it would be impossible to avoid some form of selectivity in payment of family allowances'.[601] This notion was shared by officials of the Treasury, with Sir William Armstrong asserting the need for benefit selectivity to reduce public expenditure. Armstrong also stated that should a 'means test (which would not have led to very different results in the case of substantial groups) been acceptable the Inland Revenue could have taken no exception to it.'[602] It was also seen to be an opportune moment to adjust policy, evident in Kaldor's remark that 'universal payment of family allowances was an anomaly from its inception and the present was a good moment to make a change.'[603]

It should be also noted that there existed significant pressure for a more selective social security package from the Bank. While the Labour government considered arrangement of the social policies, on 11 January 1968, the Bank put further pressure on the Chancellor to make tax increases.[604] The Governor of the Bank of England, Sir Leslie O'Brien, informed the Chancellor that the repayment by the UK for foreign short-term debt, to the IMF and other central banks, would start within the same year. In addition, O'Brien warned that

---

[600] PREM13/2057, Prices and Incomes Policy (C (68) 45, 46 and 50), Sir Burke Trend to the Prime Minister, 28 February 1968.
[601] TNA, T331/38, Record of a meeting held in Chancellor of Exchequer's room, Wednesday 20 December, 6.45 p.m.
[602] Ibid.
[603] Ibid.
[604] BoEA, G41/2, Governor to the Chancellor, 11 January 1968.

concerning the prospects of the UK balance of payments, some estimates indicated no surplus, which would ‘give us no reason to believe we shall get any assistance during this year in paying off our debts’.[605] On this occasion, O’Brien assessed that the ‘only hope of getting through 1968 without drifting into chaos rests on restoring fully and without delay the world’s confidence in our willingness and ability to grapple with our problems’.[606] O’Brien foresaw that failure to do this would lead to the international monetary system falling into chaos. For this reason, he wrote to the Chancellor of the challenges of the cuts:

> I know, however, that some of the cuts which you have been resolutely examining are especially difficult, partly because of administrative complications and partly for political reasons.

O’Brien elaborated on the necessity for increased selectivity in the family allowances for mitigating external pressure:

> This I know applies especially to the selective restriction of family allowances. Nevertheless, I believe that this, which could save so much money straight away, is a vital part of your package and should make all the difference to its acceptability throughout the world. Whatever the administrative difficulties or political dangers, they must pale into insignificance beside the catastrophic result of failing at this late hour to win the battle of confidence.[607]

O’Brien then added, therefore that ‘a mere marginal tinkering with family allowances will not be enough […] I strongly advise that your package should

[605] Ibid.
[606] Ibid.
[607] Ibid.

be reinforced by some instant announcement of tax increases to be included in your forthcoming Budget'.[608]

Despite motions in the government for introducing selectivity into the family allowances, Kaldor's scheme faced a political backlash. On 22 December 1967, Judith Hart, Minister of Social Security, expressed the view that this scheme would cause 'real political difficulties,' arising from the disturbance of relativities between families with dependent children and single people.[609] In addition, Hart highlighted that reducing family incomes with the exception of the poor and 'asking better off families (alone) to pay for FAM for poor families' would require some adjustment of the structure of income tax and increase in income tax child allowance to 'redress the balance'.[610] In line with this critique on his scheme, Kaldor amended his proposal.[611] He suggested that the claw-back system 'is the best combined with a £20 increase in the income tax child allowances financed by 3d rise in the standard rate.'[612] In addition, regarding the potential rise in the number of taxpayers through the increase in taxable income of the family allowances, Kaldor recommended the removal of one million taxpayers from tax liability and the reduction of the tax burden for an additional four million taxpayers, with a minimum income relief of £107.[613] Kaldor demonstrated his concern that both schemes would not be beneficial for standard rate tax payers, whom the Chancellor suggested might be encouraged with some financial incentive. Kaldor conceded to avoidance of a full claw-back and considered burden sharing amongst taxpayers as a whole.

608 Ibid.
609 TNA, T171/831, Family Allowances, Comments on Kaldor paper, Minister of Social Security to the Chancellor, 22 December 1967.
610 Ibid.
611 TNA, T171/831, Selective Family Allowances – the Present State of Play, Nicholas Kaldor to Sir William Armstrong, 27 December 1967.
612 Ibid.
613 This figure was later changed.

This increase in family allowances also became an issue within the income tax field, which became gradually less progressive due to the widening of reduced rate bands, and bracket creep in conjunction with inflation without increase in personal allowances. The increase in family allowances, as taxable income, was expected to increase the number of taxpayers. Kaldor proposed introducing a minimum earned income relief of £143 (this figure was later changed to £137) for single men, which would increase by two sevenths of additional personal allowances for a wife and children, reducing the personal allowance for single persons by £40, and a reduction in the personal allowance of married men by £20.[614] This structure would push up the personal income tax exemption limit for single men up £34 from £283 to £317. That for married men would be pushed up by £60. This scheme was projected to benefit 4.5 million taxpayers and lead to the exemption of a further 900,000 people from tax liability. The objective of this was not related to revenue but 'to counteract the undesirable side-effects of the family allowance scheme in lowering the starting points of liability' and 'to relieve others who have been brought into tax liability as a result of inflation'.[615] The Inland Revenue repeatedly criticised Kaldor's amended proposal of minimum earned income relief, citing administrative difficulties and its potentially complicated structure, proposing a 'modest increase in the income tax rates, coupled with an increase in the single and married personal allowances and a reduction of the first reduced rate band.'[616]

[614] TNA, T171/1411, Minimum Earned Income Relief, Nicholas Kaldor to the Chancellor, 26 January 1968. TNA, T171/1411, Minimum Earned Income Relief, Nicholas Kaldor to the Chancellor, 2 February 1968.
[615] TNA, T171/1411, Direct Taxation and Earned Income Relief, Nicholas Kaldor to the Chancellor, 31 January 1968. Kaldor asserted that his scheme, which would lower personal allowances, would not be 'painless', leading to higher tax on all taxpayers and an increase in the tax burden on bachelors.
[616] TNA, T171/1411, Personal Taxation, Sir Alexander Johnson to the Chancellor, 1 February 1968. Kaldor again criticised the scheme proposed by

On 8 February, the Chancellor showed his support for the possible increase in both standard and reduced income tax rates, which would see an increase in the 30 per cent reduced rate to 31.25 per cent, and standard rate to 42.5 per cent.[617] However, mitigation of the impact of this increase in the standard tax rate with the necessary earned income relief was estimated to cost between £150-210 million, and to be mired in administrative difficulties.[618] Moreover, the Chancellor faced pressure from the Prime Minister to achieve an increase in the corporation tax rate and reduction in the standard income tax rate simultaneously, in accordance with suggestions by the CBI (Confederation of British Industry) made before the devaluation.[619]

However, the Prime Minister's advocacy of increase in corporation tax had faced both domestic and international constraints, prompting reiteration of Chancellor of the Exchequer Jenkins' predecessor's *de facto* promise to limit the increase to 42.5 per cent. In addition, at the stage of devaluation, the UK government had sent its Letter of Intent to the IMF on 23 November 1967, which clearly stated that the corporation tax rate would be increased from 40 to 42.5 per cent. It was considered that this statement was 'crucial' to pin the rate at 42.5 per cent as opposed to 45 per cent.[620] On 29 February 1968, Jenkins

---

the IR due to his view that this scheme would be insufficient to offset the larger burden on low-income FAM recipients through the process of bracket creep, and would have redistributive effects not from standard rate taxpayers to the poorest but from the better-off to the poorest taxpayers. TNA, T171/1411, Personal Taxation, Nicholas Kaldor to the Chancellor, 5 February 1968.

617 TNA, T171/1407, C.M. (68) 15, Chancellor's Meetings, Budget 1968, 8 February 1968. TNA, T171/831, Personal Taxation, Sir Alexander Johnson to the Chancellor, 1 February 1968.

618 TNA, T171/831, Personal Taxation, Sir Alexander Johnson to the Chancellor, 12 February 1968.

619 TNA, T171/1411, Robert Armstrong to Sir William Armstrong, 20 February 1968.

620 For the Letter of Intent sent to the IMF on 23 November 1967, see Hansard, House of Commons Debates, 30 November 1967, Vol.755, cc. 643-52. T171/1411, Corporation Tax, D. B. Andren to Robin Butler, 29 February 1968.

held that in light of the previous announcement by Callaghan on 18 November 1967 to fix the corporation tax rate at 42.5 per cent, relations with the City would be harmed should an increase to 45 per cent take place.[621]

With a rise in the corporation tax rate limited, pressure was then placed on the Chancellor to avoid an income tax increase. As discussion continued on the plan for income tax and family allowances, the Chancellor clarified his opinion. Firstly, he would accept heavier tax increases on bachelors and spinsters than on married men.[622] Secondly, he backtracked and stated that he did not want to increase the standard income tax rates and reduced rates.[623] Thirdly, the Chancellor was committed to using a claw-back scheme to recover the increase in family allowances from standard rate tax payers, and showed his awareness that this 'would have the effect of bringing a considerable number of people into tax, or into a higher rate band'.[624] He did however express his desire to 'go as far as possible in taking people of this kind out of tax again [...] it might well not be possible to go the whole way.'[625] Fourthly, the Chancellor was 'impressed' by the possibility of an increase of £15 in the single allowance, while showing a preference for an increase of £25 or more in the married allowance, if this were possible without 'too great a narrowing in the reduced rate bands.'[626] This was

---

On the other hand, it was reported that Jenkins seemed not to have any intention to manipulate the corporation tax rate: 'Spoke to Mr. McConnachie and we agreed that, since the Chancellor seems to be receding from this possibility, we might hold this back until it rose its head again. He agreed.' Handwritten by Robin Butler 1 March 1968 on T171/1411, R. I. McConnachie to Robin Butler, 1 March 1968.

[621] T171/1425, Minutes of a meeting in the Chancellor of the Exchequer's room, C.M. (68) 3rd Meeting, Thursday 29 February 1968.

[622] TNA, T171/1411, Robert Armstrong to Sir William Armstrong, 5 February 1968.

[623] TNA, T171/1411, Robert Armstrong to Thomas at the Inland Revenue, 13 February 1968.

[624] Ibid.

[625] Ibid.

[626] Ibid.

considered provision of a 'self-balancing' structure. Finally, the Chancellor emphasised that these schemes should not result in the loss of any net revenue.[627]

Although the Chancellor discarded the option to raise income tax, he attempted to co-ordinate finance with an increase in the family allowances, accompanied by tax base expansion that would place additional burden on the worse-off, and increase in personal allowances. However, Kaldor and the IR criticised this scheme, citing that worse-off single men and married persons without children would face a significant burden.[628] Meanwhile, as mentioned above, Kaldor's main scheme of a claw-back with minimum earned income relief was repeatedly criticised for its potential cost and administrative difficulties. In fact, the matter of simplification of taxation was also related to the relationship with the City. It was reported that the Chancellor stated his line that

> his own disposition was to aim for a Finance Bill which was not too complicated. He thought it would be a mistake in the post-devaluation phase to contemplate a long Finance Bill. He was conscious of the City objections to frequent changes and regarded it as of importance to improve the relationship between the Government and the City.[629]

---

[627] Ibid.
After the Chancellor's view moved towards avoiding an increase in income tax, he pushed the scheme of increasing the single allowance by £15 to £235 and the married allowance by £30 to £370, with a cut in the first reduced rate band to £60 at 20 per cent and the second reduced rate band to £170 at 30 per cent. See TNA, T171/831, Sir Alexander Johnson to the Chancellor, 14 February 1968, and TNA, T171/831, Robert Armstrong to Thomas at the Inland Revenue, 19 February 1968.

[628] TNA, T171/831, Personal Taxation, Kaldor to the Chancellor, 16 February 1968. TNA, T171/831, Meeting with Sir Alexander Johnson on 22 February 1968, Robert Armstrong to the Chancellor.

[629] TNA, T171/1410, Note for the Record by R. G. Lavelle, 19 December 1967.

From this it is clear that after devaluation, for a strong relationship with the City, the Chancellor needed to ensure that tax and expenditure within the 1968 budget did not present as complicated. The Chancellor at this stage concluded that the 1968 budget would include 'a number of unpalatable steps', making it unwise to undertake large tax reform simultaneously.[630] With significant objections against the possible schemes, the Chancellor did not introduce any major change in the field of income tax within the 1968 budget.[631] On 6 March 1968, the Chancellor 'was very anxious to avoid an increase in the standard rate if possible. It was a key note of the budget that he was leaving this area alone.'[632] In addition, for children who qualified for family allowances, the Chancellor put into place a reduction in income tax child allowance of £36 in order to claw-back the amount of increase in family allowances. Moreover, the Chancellor decided to take no further action to reduce the number of income tax payers. Akin to Stewart's proposal, this £36 income tax child allowance reduction was designed to recoup the amount of increase in family allowances from standard rate income tax payers, tapering off for the reduced rate income tax payers.[633]

---

[630] Ibid.

[631] T171/1425, Minutes of a Meeting in the Chancellor of the Exchequer's room, C.M. (68) 5th Meeting, Wednesday 6 March 1968.
In the income tax field, increase in the age related income tax exemption limits from £401 to £415 for single persons and from £643 to £665 for married couples was decided. T171/1425, Minutes of a Meeting in the Chancellor of the Exchequer's room, C.M. (68) 6th Meeting, Friday 8 March 1968.
An extra tax allowance of £120 for married men was introduced. The married allowance was £340 and the single allowance was £220.

[632] T171/1425, Minutes of a Meeting in the Chancellor of the Exchequer's room, C.M. (68) 5th Meeting, Wednesday 6 March 1968.

[633] For the estimate of the reduction in income tax child allowance for each income group, see T171/720, Financial Bill 1968 Clause 14: Alterations in personal reliefs, paragraphs 13-22.

6.5.2 The impact of the 1968 budget

The overall redistributive effects of the budget of 1968 are difficult to assess here because factors such as age cohort, family structure, and capability must also be considered. Moreover, as detailed by Korpi, targeted and flat rate benefits can be less efficient in improving equality and poverty than 'universalistic' earning-related benefits including high-income groups.[634] This suggests that the more 'targeted' family allowance and its increase in 1968 budget cannot necessarily be judged as progressive or regressive, or as having improved inequality and poverty. In addition, Junko Kato has revealed that regressive taxation such as consumption tax and VAT upheld stable public expenditure, which created the path dependence of 'welfare states'.[635] The implication here is that increase in indirect taxation would not inevitably result in regressive fiscal schemes and that focus must be placed on both revenue and public expenditure.

Concerning assessment of expenditure and revenue surrounding the family allowances, Atkinson's analysis has revealed that the increase had little impact on the level of income because the family allowances increase was offset by the rise in national insurance and the claw back scheme.[636] With respect to 1968 budget, while the effective rates of direct and indirect taxes with contributions on

---

[634] Walter Korpi and Joakim Palme, 'The Paradox of Redistribution and Strategies of Equality: Welfare State Institutions, Inequality, and Poverty in the Western Countries', *American Sociological Review*, Vol.63, No.5, 1998, pp.661-87.

[635] Junko Kato, *Regressive Taxation and the Welfare State: Path Dependence and Policy Diffusion* (Cambridge: Cambridge University Press, 2003).

[636] A. B. Atkinson, 'Inequality and Social Security', in Peter Townsend and Nicholas Bosanquet (eds.), *Labour and Inequality* (London: Fabian Society, 1972), p.17. Atkinson took low-paid workers with three children as the point of analysis.

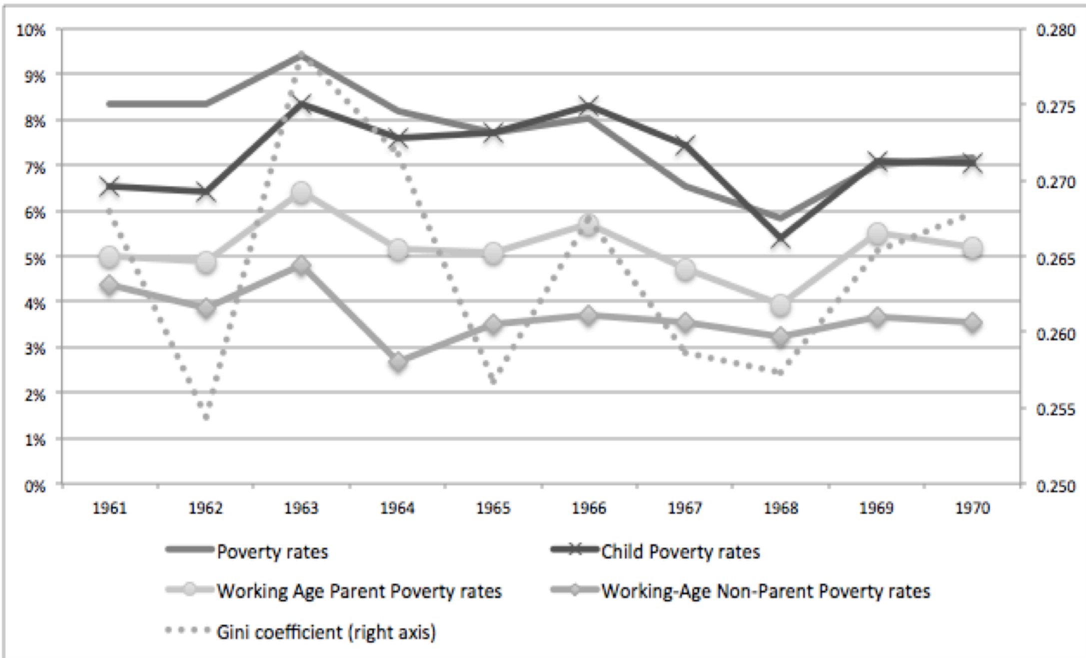
personal income increased from approximately 27 per cent to 31 per cent, the total amount of reduction in public expenditure on goods and services reached £500 million for the two years following devaluation.[637] Thus, there is no doubt that tax increase and the 1968 reduction in public expenditure enhanced deflationary pressure.

In terms of overall effects, as has Tomlinson argued, the 1968 budget can be considered mildly regressive.[638] This is clear in the simple data presented below in Figure 6-5.[639] Although this budget, including the regressive factors such as increase in direct taxation, was expected in the government to be more progressive in terms of the Gini coefficient, predicted to reduce from 0.25 to 0.2465, the actual outcome of income distribution became regressive.[640] The below Figures 6-5 and 6-6 detail historical statistics of the Gini coefficient and the relative poverty rates (50 per cent of the median income) of different types of household. It should be noted from this data, that while the 1968 budget had a regressive impact, various poverty rates and income distribution historically improved under the Labour government in the 1960s. Here, the decrease in poverty rates supports the argument that the Labour government made efforts to increase targeted spending for the unemployed and pensioners.

---

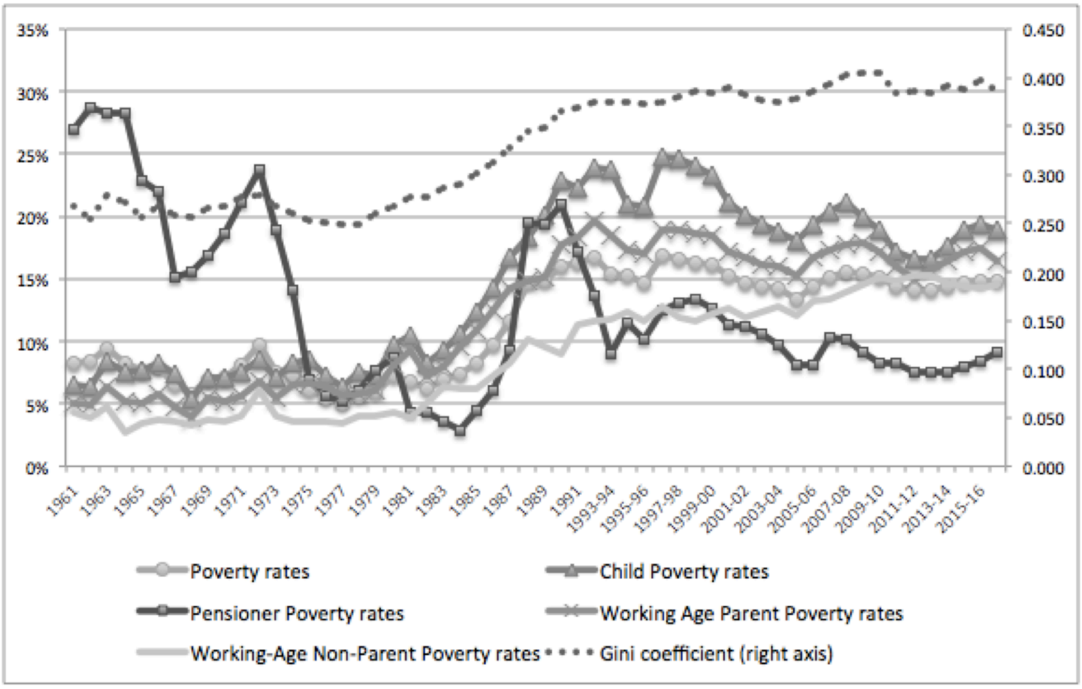
[637] For fluctuation in public expenditure, see Blackaby, *British Economic Policy 1960-74*, p.45. For the effective tax rates, and detailed out-turns with planned expenditures, see R. W. R. Price 'Public Expenditure' and 'Budgetary Policy', in Blackaby (ed.), *British Economic Policy 1960-74*, pp.108-9, 161.
[638] Tomlinson, *The Labour Governments*, pp.208-9.
[639] Given that the Gini coefficient indicates only the outcome of income distribution through the market and fiscal measures, individual needs and complex income distribution within the market cannot be taken into account.
[640] T171/1424, Redistributive effects of the Budget, Note by J. L. Nicholson, 15 March 1968.

Figure 6-5: Gini Coefficient and Relative Poverty Rates (1961-1970)



Source: Institute for Fiscal Studies: Living Standards, Inequality and Poverty Spreadsheet.
Note: All incomes refer to household incomes and are measured net of direct taxes and benefits, after housing costs deduction. All data is derived from Family Expenditure Survey (FES).

Figure 6-6: Gini Coefficient and Relative Poverty Rates (1961-2016)



Source: Institute for Fiscal Studies: Living Standards, Inequality and Poverty Spreadsheet.
Note: All incomes refer to household incomes and are measured net of direct taxes and benefits, after housing costs deduction. All data is derived from Family Expenditure Survey (FES).

6.6 Conclusion: Devaluation and 'British social democracy'

On 19 March 1968, the Chancellor of the Exchequer, Roy Jenkins, announced the budget. This 1968 budget can be considered as expanding the ideas within accompanying measures that had been gradually established from 1965. The increase in both direct and indirect taxation, cuts in public expenditure including in defence and social security, and maintenance of incomes policy had already been confirmed before the devaluation of 1967. In the aftermath of the decision to devalue sterling, pressures for fiscal tightening intensified, due to influence from international and domestic monetary institutions such as the IMF, Working Party 3 at the OECD and the Bank of England.

Even though this pressure put significant constraint on the course of 1968 budget, there were areas that the Labour government would not be moved on. This chapter has mainly focused on the political battlefields of corporation tax, income tax and the family allowances. Concerning corporation tax, it is clear that some in the Labour government sought further increase in the corporation tax rate, however, Jenkins discarded this option due to the potential harm such a move would inflict on the relationships amongst the government, the City and the IMF. As it faced the necessity to extend the international credit provision package while avoiding a fall into repayment for foreign short-term debt, officials of the Labour government, particularly Jenkins, were concerned with the potential outcome of an increase in corporation tax. This resulted in a limited increase in corporation tax without major reform.

In conjunction with the above negotiations, the fields of income tax, personal allowances and family allowances also created political conflict. The increase in family allowances, which had been set on course before the devaluation, provoked dispute over how the costs would be financed. In the beginning, income tax reform was proposed as a means to finance this additional cost, however, this was criticised by Harold Wilson and James Callaghan, who insisted on reduction of income tax rates. With the option of income tax reform becoming increasingly unlikely, the need to finance the rise in family allowances pushed the idea of a more selective social security system into the discussion. In addition, as a fundamental political milieu and with strong demand from both the Bank and the international sphere, some kind of selectivity in the benefit system became an inevitable course in the wake of devaluation.

With this prerequisite, on one side Michael Stewart, with the political support of Harold Wilson, stood against the blockage of resources for social expenditure. Behind their stance, there existed concern over how to manage the interests of those in receipt of benefits and allowances, and how best to mitigate conflict with industries over the incomes policies, without a negative impact on electoral movement. Stewart promoted schemes to reduce the allowances for both standard rate taxpayers and reduced rate taxpayers evenly within the existing income tax rate structure. On the other side, Jenkins was significantly affected by the interests of financial markets and institutions, and keen to shrink public spending in the social security field, looking to raise revenue from mainly regressive fiscal measures relying on indirect taxation. This group, sharing the preference for a more selective social security system raised by Kaldor, pushed schemes to more drastically transfer income from high-income earners to low or non-income earners, in a full claw-back of the family allowances from high-income earners with allowances tapering-off for reduced rate income tax payers. It was proposed that this should be accompanied by adjustment of the personal tax allowances structure or a rise in the income tax burden, which was side-lined by Wilson. Here, it should be noted that this proposal for a full claw-back was congenial to the demands of the Bank and international arena. An initial intention behind this selective full claw-back proposal, at least in the eyes of Jenkins and the Bank, was for it to act as a means to reduce public expenditure. In this respect, selectivity or targeted family allowances were inseparably entangled with the purpose of reduction in public expenditure.

However, as Tomlinson has already explicated, Kaldor's scheme provoked a backlash due to its potential to create unfavourable burden sharing between the single and married with or without children.[641] In addition, the justification of transferring a significant sum from the better-off to the worse-off was held to be difficult politically, with elections in mind. With the IR and City at the forefront, concerns over complexity, administrative difficulties and financial costs were also raised. Kaldor then presented his amended proposal to claw-back with increase in income tax rates. In line with Kaldor, Jenkins re-kindled political debate towards possibly increasing income tax rates until just before the establishment of the budget, however, he faced pressure from Prime Minister Wilson to reduce, rather than increase income tax rates. Faced with this pressure, Jenkins discarded the option to make changes in income tax. At this point, the remaining option for Kaldor was to arrange the burden surrounding family allowances with a minimum earned income relief, however, this was also rejected due to its administrative difficulties.

Finally, the determined policy course was a less progressive but more universal scheme than the original proposal, without any requirement for new legislation. This resulted in the decrease in the child income tax allowance by

[641] Tomlinson, *The Labour Governments,* chapter 9.

£36 in order to recoup the increasing sum of family allowances, a scheme originally advocated by Michael Stewart. It is evident that the resulting changes to the family allowances can be considered as more selective than the previous scheme but less selective than the original proposal for changes, and maintaining the planned increase of its overall expenditure.

With the above analysis of these historical developments, here examination can be made of Newton's argument that the historical or political economic impact of 1967 devaluation prolonged 'British social democracy'. Section two of this chapter has attempted to narrow down the concept of post-World War II 'British social democracy', with the significant interest of this chapter being Labour's era in the 1960s, identifying its characterisation as aspects of progressive fiscal policies mixed with universal or less selective social securities, and liberal economic thought, which embodied partially into the 'Keynesian' policies espoused with collective economic thought. If this understanding holds credence, Newton's argument and the diverse assessment of devaluation require revisiting.

There is no doubt that the potential course of 1968 budget had already been constrained by both efforts to make the devaluation effective and pressure from monetary institutions such as the Bank and IMF. In this sense, increase in taxation and reduction in public expenditure had already been perceived as inevitable around the decision to devalue. Does this provoke the understanding that the Labour government accepted regressive measures? Important to note here is that this does not mean that the Labour government made full concessions. While the Prime Minister, Michael Stewart, the TUC, Butler and to some extent Callaghan, advocated increase in corporation tax, reduction in the income tax burden, and protection of public expenditure particularly in the social security field, Jenkins attempted to push policy in the opposite direction in line with the Bank, City, IMF, Working Party 3 and to some extent the IR.[642] Therefore, with the notable exception of Jenkins, many Labour ministers can be seen as prioritising defence of the progressive aspects of its fiscal measures and a certain level of public expenditure, giving careful consideration to living standards after devaluation. Consequently, via the conflicts amongst them, the policy outcome was that the further increase in corporation tax was given up. Meanwhile, income tax was to be maintained, or at least not increased, as a *quid pro quo* for introduction of a more selective family allowance, however, its selectivity became less than Jenkins had sought (though in effect it was less progressive than the proposal). However, the whole budget had a regressive impact, at least mildly, but it is open to the interpretation that the Labour government contained the regressivity in the budgeting process.

Therefore, for Labour, both aspects of failure and partial success can be seen within 1968 budget. However, a defeat can be accentuated if one looks into the quality of 1968 budget and objectives of Labour government. As Michael Hill and Wilfred Beckerman have described, the Labour administration set out to reduce the presence of selectivity within the social security system, and to increase redistributive effects.[643] If this assessment still holds credence, the 1968 budget contained partial defeat regarding reducing selectivity in the social security field, and concerning achievement of progressive fiscal measures, which simultaneously saw the expansion of regressive and liberal-

---

[642] Note that the TUC took into account the unpopularity of family allowances and its increase, however, it did not put forth its reduction but rather simultaneous increase in supplementary benefits in order to mitigate the hostility towards family allowances.

[643] Michael J. Hill, ‘Selectivity for the Poor’, pp.235-45, and Wilfred Beckerman, ‘Objectives and performance: an overall view’, in Wilfred Beckerman (ed.), *The Labour Government’s Economic Record 1964-1970* (London: Duckworth, 1972), p.37-44.

leaning fiscal measures.[644] Thus, it can be assessed that a change underwent in the components of ‘British social democracy’, say the universal and progressive facets, and there occurred a rise of liberal aspects within it, triggered ultimately by the devaluation. In this sense, even if, as argued by Newton, the devaluation was for prolonging ‘British social democracy’, it did not, in fact, have great impact on maintaining it, rather it fostered its change, at least from short-term and fiscal perspectives.[645] Hence, rather than prolonging ‘British social democracy’, the 1967 devaluation can be considered to have, in terms of the liberal aspects of taxation, targeted or selective social securities and a regressive 1968 budget, somewhat modified its quality and increased the liberal aspect within itself.

[644] Here, liberal-leaning fiscal measures refer to indirect taxation, an expanding taxation base, and targeted provision of social security.

[645] It should be noted that if Newton emphasised ‘liberal socialist synthesis’ solely as ‘embedded liberalism’, which refers to the harmonisation of domestic Keynesian economic management and the tendency towards international free markets, then the 1967 devaluation no doubt had a prolonging impact, at least until 1971. This is because the devaluation did not usher in the immediate collapse of the Bretton Woods system, and Keynesian fiscal policies theoretically survived in the *de facto* fixed exchange rate system, at least in the short-term. However, this chapter refers to the issue in Newton’s argument that the 1967 devaluation prolonged not only this ‘embedded liberalism’, but also ‘British social democracy’.

Chapter 7: From the Nixon shock to the decision to float: The international political economy of monetary co-operation in the British political reality

'…have our cake in Europe and to eat it in America.' [646]

7.1 Introduction

In the aftermath of the devaluation of sterling in 1967, and the gold crisis of 1968, inflationary pressure surged from intensification of industrial action and growing public expenditure, increasing turmoil in the international monetary system.[647] On top of this, the US inflation rate neared 6 per cent in 1969, then remaining over 4 per cent even in the summer of 1971, contributing to further speculative pressure on the US dollar. Between 1970 and 1971 the US experienced the first trade deficits since World War II. This accelerated the flow of the US dollar overseas particularly into West Germany, creating inflationary pressure in Europe. Contrary to the objectives of tightening measures pursued

---

[646] TNA, PREM15/1278, United States Annual Review for 1971, Cromer to Sir Alec Douglas-Home, Secretary of State for Foreign and Commonwealth Affairs, 5 January 1972.

[647] For a quantitative assessment of the influence of the devaluation of sterling in 1967 on the gold pool, see Michael D. Bordo, Eric Monnet and Alain Naef, 'The Gold Pool (1961-1968) and the Fall of the Bretton Woods System: Lessons for Central Bank Cooperation', *NBER Working Paper*, No. 24016, November 2017. This work quantitatively corroborated the account that the sterling devaluation in 1967 contributed to the succeeding gold crisis and the dysfunction of the gold pool.

to offset such capital movement, these measures ironically fostered further capital inflow to Europe from the US, proving ineffective.[648]

In Britain, following the draconian budget of Wilson's Labour government, the Conservative Party won the general election in June 1970, a surprising result after earlier opinion polls had suggested voters were not in their favour. Under Prime Minister Edward Heath's Conservative government, international monetary affairs would significantly differ from the preceding Labour government. During this period, the UK pursued accession to the EEC, and saw the decline of the US dollar in contrast to the rise of the momentum of European monetary integration. This chapter focuses on UK foreign economic diplomacy during the period from the Nixon shock in August 1971 to the decision to float sterling in June 1972, via the Smithsonian agreement, the Anglo-American Bermuda meeting and the 'snake in the tunnel'.

In the context of international monetary relations, it is broadly held that the early 1970s was a turning point from the Bretton Woods system to a floating exchange rate system, heralding the rise of European monetary integration. In parallel, British foreign economic policies and currency management metamorphosed, and its relations of mutual reliance with the US in the 'special relationship' gravitated, at least in the short-term, towards the EEC. Thus, the change in the balance of Anglo-American and Anglo-EEC relations, while drastic international monetary reform was ongoing, is a key perspective for exploration of British foreign economic relations.

From the perspective of Anglo-American relations, Dumbrell has argued that under Prime Minister Heath, Anglo-American relations were a

[648] Bordo, Humpage and Schwartz, *Strained Relations*, pp.198-9.

‘transmogrification’ of the ‘special relationship’ in which Heath harboured reservations about the US arrogantly wielding its diplomatic influence, and strived to avoid any misgivings that EEC member countries, particularly France, might hold that the UK would bring US interests into the EEC.[649] Dobson echoed this account, assessing that Anglo-American relations between 1970 and 1974 were ‘rather barren’.[650] This group of arguments have emphasised Heath’s proclivity towards the EEC having a detrimental or at least inhibiting effect on Anglo-American relations.

However, new accounts have been provided on Anglo-American relations in the early 1970s. For example, Brummer focused on the Bermuda meeting as an opportunity for re-kindling close Anglo-American co-operation, and highlighted its role for reformation of the international monetary order.[651] In line with this argument, Rossbach detailed that although the efforts of Heath to join the EEC made Anglo-American relations vulnerable, this paradoxically provoked the rebirth of the Anglo-American ‘special relationship’.[652] Andrew Scott has also attempted to shed new light on historical continuity in the context of the British policies of the Macmillan and Wilson governments, emphasising Heath’s efforts

---

[649] John Dumbrell, *A Special Relationship: Anglo-American Relations in the Cold War and After* (Basingstoke: Macmillan, 2001), p.73. Ovendale also expressed a similar view, see Ritchie Ovendale, *Anglo-American Relations in the Twentieth Century* (Basingstoke: Palgrave Macmillan, 1998), p.133. Geir Lundestad, *“Empire” By Integration: The United States and European Integration, 1945-1997* (Oxford: Oxford University Press, 1998), pp.103-4.

[650] Dobson, *Anglo-American Relations in the Twentieth Century*, p.140.

[651] Justin A. Brummer, Anglo-American relations and the EC enlargement, 1969-1974 (unpublished PhD thesis, University College London, 2012), pp.180-94.

[652] Niklas H. Rossbach, *Heath, Nixon and the rebirth of the Special Relationship: Britain, the US and the EC, 1969–74* (Basingstoke: Palgrave Macmillan, 2009), chapter 7.

to ameliorate relations with the US, and the effect of Nixon's high-handed policy decisions on the UK.[653]

In sum, these contrasting arguments share the consensus that British accession to the EEC had a significant impact on Anglo-American and Anglo-European relations, however, both arguments drew different interpretations in which the former stressed an unproductive and futile hiatus, and the latter focused upon abeyance which invigorated revival.

In order to break this dilemma in the existing research, focus should be placed on, firstly, how Britain attempted to achieve its objectives and maximise economic or political benefits from dormant or 'non-special' barren Anglo-American relations and Anglo-EEC relations, and secondly, what strategies Britain leaned towards to achieve its objectives. This provides clarity in order to resolve the ambiguity arising from the above conflictive views: whether Britain kept Anglo-American relations 'non-special', or attempted to re-construct or re-kindle the 'special relationship'. In other words, the question is how Anglo-American economic relations, which were not in crisis and catastrophe but stalemate and barren, survived without the need for a 'special' relationship, under the fluid co-operation between the two reserve currencies.

From this perspective, this chapter will re-investigate foreign economic relations between 1971 and 1972, focusing on the UK attitude towards international monetary co-operation over the snake in the tunnel measures in the period of the Smithsonian agreement, until the decision to float sterling in June 1972.

---

[653] Andrew Scott, *Allies Apart: Heath, Nixon and the Anglo-American Relationship* (Basingstoke: Palgrave Macmillan, 2011), chapter 1.

7.2 The Nixon shock and the preparation for Smithsonian

On 15 August 1971 at Camp David, President Richard Nixon declared the closure of the gold window, which suspended the convertibility of gold by the US Treasury, with the temporary imposition of a 10 per cent import surcharge, a 10 per cent Job Development Credit, and a 90 day wage-price freeze.[654] Various accounts exist surrounding this decision, including emphasis of the British purchase of gold in early August as the trigger behind the collapse of the Bretton Woods system: in the early summer over 4.7 billion dollars in gold and reserve assets outflowed from the US, in spite of foreign central banks forbearing sale of their dollars.[655] An official at the Japanese Ministry of Finance, Yusuke Kashiwagi (then Special Adviser to the Minister of Finance) in charge of negotiations for international monetary affairs, reminisced in his testimony that the UK demanded the US convert 1 or 2 billion of its dollars into gold, causing the Nixon shock.[656] However, Paul Volcker, Under Secretary of the US Treasury for International Affairs, denied this account, writing that demand for gold of countries with relatively small economies affected the international monetary situation.[657] Contrary to this, Robert Solomon acknowledged that the UK and

[654] At this stage, Nixon proposed cuts in Federal spending including foreign aid by $4.7 billion. In addition, he also proposed abolition of the Federal excise tax on automobiles (7 per cent), and an increase in personal income tax exemption.
[655] Bordo, Humpage and Schwartz, *Strained Relations*, p.200. Coombs, *The Arena of International Finance*, pp.215-6. Reasons behind this British purchase of gold are opaque. However, it may indicate continuity from Macmillan's government of the preference for gold accumulation over dollar holdings in order to avoid risks associated with devaluation or depreciation of the dollar.
[656] For the account of foreign officials who held that the conversion of dollars to gold by the UK triggered the closure of the gold window, see Honda and Hata, *Kashiwagi Yusuke no Syougen*, p.44.
[657] Paul Volcker and Toyoo Gyohten, *Changing Fortunes: The World's Money and the Threat to American Leadership* (New York: Times Books, 1992), p.77.

the US agreed to draw 750 million dollars on 13 August 1971.[658] In line with Solomon and Kashiwagi, Paul McCracken, Chairman of the CEA between 1969 and 1971, stated thus:

> …anybody who wanted gold would get quite a discussion out of it and would settle, we hoped, for a nominal amount. Then in early July, I think, the British indicated they might want some massive sum. And I recall Paul Volcker, who was in my office one day in July, saying, 'Well, the question is not whether we're going to close the gold window. The question is whether we do it this weekend or next weekend or maybe one or two after that, but that's about what we now face.'[659]

From this, it can be suggested that the attempt by the UK to purchase gold was one of the major factors, at least in the eyes of the CEA, in pushing US officials to close the gold window.

Meanwhile, under the influence of John Connally, US Secretary of the Treasury, Nixon emphasised the importance of the domestic economy and attempted to reduce the unemployment rate prior to the upcoming election, rather than focusing on the international monetary field.[660] For political advantage and expansion of the domestic economy, the Federal Reserve was

---

[658] Solomon, *The International Monetary System*, p.185. However, he did not emphasise that this gold transaction significantly affected the decision to close the gold window.

[659] Hargrove and Morley (eds.), *The President and the Council of Economic Advisers*, p.345.

[660] James, *International Monetary Cooperation Since Bretton Woods*, p.233. James quoted a note from Camp David, implying that Nixon emphasised budgetary policies over the maintenance of exchange rates. See also, Gowa, *Closing the Gold Window*. Meltzer, *A History of the Federal Reserve, Vol.2*, pp.764-5.

side-lined from the decision making process surrounding the closure of the gold window.[661]

Although diverse accounts exist surrounding the decision to close the gold window, there is no doubt that the Nixon shock fostered the reform of international monetary co-operation. One of the most important agreements was, of course, reached in the Smithsonian in December 1971. However, the UK would later become the first country to act in breach of this agreement, taking the decision of a temporary floating of its currency. One of the key arrangements made for the rearrangement of international monetary co-operation was termed the 'snake in the tunnel'. The decision, partially made at the Smithsonian agreement, allowed fluctuation of currencies within 2.25 per cent against the dollar, however, this range would allow 9 per cent of fluctuation between currencies. This was deemed insufficient to cushion against the fluctuation and speculation around currencies, especially sterling. Therefore, discussion over narrowing the margin ensued, which limited the range of fluctuations of currencies at 2.25 per cent.

The Nixon shock, which spurred international monetary reform, is recognised as the decline of US hegemonic economic power that was underpinned by the dominant power of the US dollar, and had a significant impact on Anglo-American and Anglo-European relations in the context of the beginning of European monetary integration. According to Harold James,

[661] Paul Volcker wrote that he was invited to Camp David, however, the President did not take up the Fed's suggestion to maintain the official gold parity, see Volcker and Gyohten, *Changing Fortunes*, p.78. See also Coombs, *The Arena of International Finance*, p.204-5.

> Finance Minister Valéry Giscard d'Estaing termed this [the US political economic benefits from the Bretton Woods system] the 'exorbitant privilege' in 1965; President Charles de Gaulle explained to Alain Peyrefitte that 'no domain escapes from American imperialism. It takes all forms. The most insidious is that of the dollar.' [...] And later, as president of the French Republic, Giscard, together with German Chancellor Helmut Schmidt, saw politics as the major reason why Europeans needed to act in the monetary sphere. As Schmidt told Giscard: 'The Americans need to stop believing that if they whistle, we will obey.' [...] The European Commission president, Roy Jenkins, replying to Callaghan, stated: 'I think we might move to a substantially more coordinated European monetary position which could help to create a better world monetary position'.[662]

It is clear that the rise and fall of the dollar surrounding the declaration of the suspension of dollar convertibility with gold in 1971 marked a turning point in the UK's leaning toward European monetary co-operation with EEC entry, while this co-operation was accelerated by the Nixon shock.

In the wake of the Nixon shock, the UK government set the two below objectives:

> For the longer term we should take advantage of the fact that the international monetary system was now in the melting point and try to remould it into a new system which was not dependent on the United States. For the shorter term we should try to bring about a re-alignment of parities which did the least possible damage to our competitive position. In working towards these objectives we should concert our strategy with the Six. Among the Six we might expect a difference of view about whether the re-alignment of parities should be brought about by changing the dollar price of gold or, as the Americans preferred, by the

[662] Harold James, *Making the European Monetary Union: The Role of the Committee of Central Bank Governors and the Origins of the European Central Bank* (Massachusetts: Harvard University Press, 2012), pp.27-8. James quotes three documents. Alain Peyrefitte, *C'était de Gaulle: Tout le monde a besoin d'une France qui marche* (Paris: Gallimard, 2002), pp.603, 663. For the remark of Schmidt, see Jonathan Story, 'The Launching of the EMS: An Analysis of Change in Foreign Economic Policy', *Political Studies*, Vol.36, No.3, 1988, p.397. For the statement by Jenkins see TNA, PREM16/1615, Couzen's note for Wicks, 31 March 1978, and PREM16/1641, Prime Minister's conversation with Roy Jenkins, 31 March 1978. Words in brackets added for clarification.

> re-valuing of other major currencies in terms of the dollar. It might be easier for us to achieve the sort of re-alignment of currencies which we wanted in a situation where currencies were re-valued in terms of the dollar…[663]

After these British objectives were agreed, Paul Volcker visited the UK, meeting with Alan D. Neale of the Treasury. Discussions here were reported to Prime Minister Heath, Chancellor of the Exchequer Anthony Barber, and Sir Leslie O'Brien, Governor of the Bank of England.[664] In this meeting, Volcker expressed the necessity to make new parities that would provide a surplus to the US and achieve benefits from trade in order to repeal the import surcharge.[665] Neale and Volcker agreed to push Japan to revalue by at least 15 per cent, the Dutch and Germany by 10 per cent and France by between 3 and 4 per cent. If this were achieved, Volcker and Neale recognised that the UK would either stay at the same parity or at least avoid significantly revaluing sterling.[666] Prime Minister Heath expressed his view of the necessity to improve sterling's position in relation to other currencies. He sought to avoid ongoing expansionary economic measures causing deterioration to the balance of payments, and to circumspect potential obstacles to accession to the EEC. The Prime Minister emphasised the need to focus on achieving a surplus from the

---

[663] TNA, PREM15/309, Note of a meeting held at 10 Downing Street, Monday 16 August 1971, 11.20 a.m. Attendees of this meeting were Prime Minister Edward Heath, Chancellor of the Exchequer Anthony Barber, Second Permanent Secretary to the Treasury Alan D. Neale, Chief Economic Adviser Sir Donald MacDougall, N. F. Cairncross, and Private Secretary to Prime Minister Heath, Peter L. Gregson.

[664] TNA, PREM15/309, Note of a meeting held at 10 Downing Street, Monday 16 August 1971, 7.50 p.m.

[665] This line to put significant pressure on Japan was adhered to by John Connally. In conversation with Pierre-Paul Schweitzer, the IMF's Managing Director, Connally urged the IMF to liberalise the Japanese market and threatened to revise the relations of national security with Japan and Germany, see James, *International Monetary Cooperation Since Bretton Woods*, p.217.

[666] TNA, PREM15/309, Note of a meeting held at 10 Downing Street, Monday 16 August 1971, 7.50 p.m.

total visible and invisible balances in order to maintain effective expansionary economic measures.[667] This led to the suggestion that if the EEC Finance Ministers set a package of new parities, the UK would join the agreement, however, the possible revaluation of sterling should not exceed 4 per cent (up to £1=$2.50) against the dollar. Moreover, it was determined that if other EEC countries decided to float, the UK would consider floating sterling.[668] It was recognised that these new parities would become widening margins against the dollar and 'produce a sufficient "coloration Communautaire" for the future'.[669] It is evident that the UK considered the new parities or widening margins as not solely for rearrangement within the turmoil of the Bretton Woods system, but also as a significant step towards European monetary harmonisation.

These prerequisite conditions were set by the UK, mindful of both its potential relationship with the EEC and domestic economic measures, and movements were made to foster awareness of the need to put pressure on Japan. It was reported that the Chancellor saw great weight in the 'Japanese position' and expressed his view towards 'putting pressure on the Japanese jointly with the E.E.C. and perhaps the United States to be examined in preparation for further international discussions'.[670] Behind these discussions, officials became aware of shifts in the power balance. Former Governor of the Bank, the Earl of Cromer, now British Ambassador to Washington, summarised the ongoing situation as 'by no means confined to monetary affairs, the Americans no longer consider it necessary to consult with the UK as an imperial

[667] TNA, PREM15/309, from Peter L. Glegson, Private Secretary for Economic and Home Affairs to Edward Heath, to William S. Ryrie, Principal Private Secretary to the Chancellor, 17 August 1971.
[668] TNA, PREM15/309, Meeting with EEC Finance Ministers, date unknown.
[669] TNA, PREM15/309, Note for the record, International Monetary Crisis, the Chancellor of the Exchequer's Visit to Brussels on 19 and 20 August 1971; for Consultations with EEC Finance Ministers, Appendix A.
[670] TNA, PREM15/309, W.S. Ryrie to Peter L. Gregson, 23 August 1971.

or World power.'[671] Moreover, he further mentioned the change in the standing of the two reserve currencies:

> the old concept that the dollar and Sterling should stand together as the two major world trading currencies is now obsolete. Sterling is not of the importance that it used to be; the dollar alone really matters. With the dissolution of the Sterling Area, the power and the influence which went with being the centre of it has disappeared. It is perhaps a back-handed compliment to HMG that Sterling is currently so strong that the Americans evidently had no fear of precipitating a Sterling crisis by their measures. All this contributes powerfully to the argument of a need of a European monetary bloc of a scale that signifies.[672]

In this, Cromer clearly pointed out the shift in the influence of the currencies and the change in the international political climate. He continued to remark on possible future dealings with Japan:

> The American measures in their international implications have clearly been designed to shock 'illiberal Japan' and 'rich Europe.' […] Dealing first with Japan, the Americans have much to complain about. The Japanese with skill, pertinacity and a highly integrated system of financing exports have virtually taken over the lion's share of certain sectors of the American domestic market and the threat to others has been increasing […] We in Europe have scarcely begun to feel the Japanese thrust, but our turn will come. There is little doubt in my opinion that it would be in our own interests in Europe for us to align ourselves with the Americans in bringing pressure on Japan to liberalise her trade policies and to re-value sufficiently the Yen. We might save ourselves much future pain by doing this at this time rather than to wait for later and then act without American support or in a less favourable situation wherein the Americans had done some bilateral deal with the Japanese. In our various negotiations it might prove possible to tie our support to

---

[671] TNA, PREM15/309, International Monetary Situation, Earl of Cromer to Sir Alec Douglas-Home, Secretary of State for Foreign and Commonwealth Affairs, 15 August 1971.
[672] Ibid.

> obtaining a satisfactory undertaking from the Americans on the abolition of import surcharge.[673]

Cromer suggested that the UK take a course which would not deviate from 'the logic that we have pursued over the years' and that the UK should 'attempt through all our Missions to minimise the concept of "an American defeat".'[674]

Before the negotiation over the new parities, the fundamental course of the UK and the US had already been set, although various conflictive issues remained. The international monetary reform ostensibly stalled between October and November. Under the initiative of Rinaldo Ossola, Chairman of G10 and Deputy Director General of Banca d'Italia, the issues to be settled were limited.[675] However, preference for the course in which the UK would co-operate with France and the US to jointly put pressure on Japan to liberalise its trading regulations and revalue the yen was widely shared. The UK attempted to avoid the harmful effects of new parities on domestic economic measures and accession to the EEC. To achieve these objectives, Japan proved the easiest target in the context of international monetary reform.

As endorsement of pro-European lines and gradual disengagement from the US dollar surrounding monetary issues was growing within the UK government, Prime Minister Heath expressed his view on the international monetary reform

---

[673] Ibid.
[674] TNA, PREM15/1271, Cromer to Sir Alec Douglas-Home, Secretary of State for Foreign and Commonwealth Affairs, 2 November 1971.
[675] These were (1) whether the dollar would devalue or not, and how the devaluation would be introduced, against gold or other currencies, or SDRs; (2) concerning the range of wider margins which had been set at 1 per cent; (3) removal of the US import surcharge; (4) burden sharing of military expenditure and trade deficits. Office of Historical Studies, Ministry of Finance, Japan (ed.), *History of Fiscal and Monetary Policies in Japan, 1952-1973: Volume XII, International Finance and External Economic Affairs Part II* (Tokyo: Tokyo Keizai Inc., 1992), p.401.

to German Chancellor Willy Brandt.[676] Heath attempted to reconcile Brandt to the establishment of new fixed parities with a change in the dollar price of gold. Heath asserted that this alignment should be with removal of the US import surcharge which had been introduced on 15 August 1971, and reductions of tariffs. In addition, Heath insisted on the reduction of use of the national currencies, particularly the US dollar, as international reserve assets by the achievement of gradual conversion of the US reserve currencies into an ‘acceptable form of international asset’. He also suggested urging the US to apply ‘a satisfactory process of adjustment’ to finance its deficits. Heath recognised that

> The danger of accepting a limited settlement - for instance, a realignment of parities agreed with the United States in exchange for the elimination of their surcharge and of the fiscal discrimination introduced on 15 August - would be that we should weaken the incentive on all concerned to reach a broad solution, and perhaps also weaken the bargaining position of Europe in subsequent negotiations.[677]

Although Heath expressed this along European interests, he also mentioned that ‘the essential requirement’ would be elimination of the US surcharge and tax discrimination introduced on 15 August accompanying the settlement of new parities. In order to achieve this fundamental objective, Heath argued that Europe should have ‘agreed objectives and common positions’, and ‘a view to harmonising our objectives and our positions to the greatest extent possible.’[678]

---

[676] TNA, PREM15/326, Heath to Willy Brandt, 26 November 1971. The same content was sent from Heath to Pompidou, in TNA, PREM15/326, Heath to Pompidou, 24 November 1971.
[677] Ibid.
[678] Ibid.

On 30 November 1971, the Group of Ten (G10) met in Rome. In this meeting, the US raised the agenda of an average increase in the new exchange parities against the US dollar by 11 per cent, taking the rate of 1 May 1971 as the starting point.[679] Volcker did not deny the possibility of changing the gold price. Connally made known his intention for a 10 per cent devaluation of the dollar against gold, after which ensued a 'long silence', followed by Connally's complaints on the delay of trade issues. However, Switzerland, France and the UK raised the issue that should the dollar devalue at 10 per cent, they would also need to devalue their currencies. Meanwhile, Karl Schiller, German Finance Minister and Minister of Economic Affairs, attempted to reconcile the European side to accept the deal if they wanted to remove the US import surcharge. On the following day, Connally maintained his stance of 'no currency settlement, no trade talks.'[680] The Japanese side insisted they would not accept a 20 per cent revaluation, however devaluation between 10 and 15 per cent would be acceptable. Giscard took the stance that a 7 or 7.5 per cent devaluation of the dollar would be acceptable. However, Volcker stayed with the US requirement, stating that an 8 per cent devaluation of the dollar would not be acceptable. No agreement was reached at this stage.

On 3 December 1971, there was considerable speculative pressure on the dollar. Heath permitted the Bank to allow a rise within a limit of $2.52 from $2.50. Behind this decision, Heath

---

[679] PREM15/812, Record of Restricted Sessions (i.e. Finance Ministers and Governors only) of Meeting of the Group of Ten and of EEC Ministers in Rome on 30th November 1971 and 1st December 1971. In this meeting, Volcker's suggestion was recognised as revaluation as follows; 9 or 10 per cent for France, Sweden, Italy, UK, 13 or 14 per cent for the Netherlands, Belgium, Switzerland, 20 per cent for Japan, 15 per cent for Germany, 6 or 7 per cent for Canada.

[680] Ibid.

> feared that the United States Government were succeeding in their objective by encouraging the pressures of speculative movements to work. The further we allowed our rate to rise, the more we should be playing their game. Moreover, the further our rate rose, the more difficult it would be in any eventual settlement to ensure that sterling remained on level terms with the French franc and the Italian lira. The only way in which we could stop the Americans from playing this game was for the EEC countries and ourselves to say that, if the dollar price of gold was raised by more than a certain amount, other currencies would follow the dollar all the way down.[681]

It was also agreed in this discussion that 'there might come a time, if the United States pushed matters too far, when the EEC and we had to break with them [...] if President Pompidou and Herr Brandt had reached some kind of agreement when they met, it ought to be possible to reach some kind of agreement in the Group of Ten.'[682] It is clear that the UK attempted to show its uncompromising stance and unwillingness to make concessions in the face of US demands, placing or allowing speculative pressure on the dollar.

While the conflict between both sides of Atlantic remained, Arthur Burns, Chair of the Board of Governors of the Federal Reserve System, showed his scepticism of Connally's role:

> if Connally was allowed to play the hand on his own, no solution would be found before the Presidential elections, and we should then all be in serious trouble. Burns had expressed [...] his confidence that President Nixon himself wanted an early settlement; but he equally feared that the President was not taking a close enough interest in the matter at present because of the confidence he placed in Connally. Burns had told Schaetzel that it was really essential for Europe to play a more active part and particularly for the Heads of European Governments to try to get through to the President and bring him to a

[681] TNA, PREM15/812, Robert Armstrong to A. M. Bailey, 7 December 1971.
[682] Ibid.

> greater sense of urgency, as a means of ensuring that he in turn kept greater control over Connally.[683]

This suggested that even the Federal Reserve required British officials at the Foreign Commonwealth Office to put pressure on Connally and to settle the international currency issues. In this way, the Federal Reserve attempted to bypass domestic political conflict through drawing on the international political domain as a buffer in order to change the domestic political power balance and policy course, via the influence of the UK and EEC.

On 12 December 1971, Prime Minister Heath and Christopher Soames, British Ambassador to France, met Maurice Schumann, French Minister of Foreign Affairs, and Geoffroy de Courcel, French Ambassador to the UK.[684] They shared the recognition that the 'key' would be Japan. The officials were concerned whether Japan would accept significant revaluation of the yen to persuade the US to change the dollar price of gold. Heath agreed with the line of this argument and considered that:

> it was very important that anything agreed between the United States and Japan should be multilateral in its consequences. Otherwise, there would be a danger that the United States administration, having picked off the Japanese, would try to pick off the European countries one by one.[685]

While the UK, France and Germany shared the consensus for avoidance of

[683] TNA, PREM15/812, Michael Palliser to James Bottomley, 11 November 1971.
[684] TNA, PREM15/812, Extract from Note for the Record of a meeting between Edward Heath, Christopher Soames, Maurice Schumann and Geoffroy de Courcel, 12 November 1971.
[685] Ibid.

any unacceptable burden that might arise from impending rearrangement of new parities, the US put significant pressure on Japan. On 12 November, Japanese Prime Minister Eisaku Sato and Connally held a meeting in Tokyo. At this meeting, Connally urged Japan to accept a 24 per cent revaluation of the yen accompanied by the revaluation of the mark at 18 per cent and the franc at 13 per cent, which would swing $13 billion into the US balance of payments.[686] Sato was surprised at Connally's suggestion. Connally asserted the US stance that lifting its import surcharge would come 'with adequate revaluation'. Regarding the UK, Connally stated that 'France had its problems, and that the UK would probably follow the French lead, at least until it obtained full membership in the EEC.'[687] Sato responded that 'the UK could probably play a useful role in the EEC vis-à-vis France in view of its special relationship with the United States.' However, Connally showed his dim view that 'one would think so, but these days, with its membership in the EEC pending, the UK could hardly be called helpful.'[688]

Prior to the opening of negotiations at Smithsonian, on 13 and 14 December 1971, Nixon and French President Georges Pompidou held a meeting at the Azores. At this meeting, the leaders secretly reached the decision that France would agree to the new gold price of one ounce at $38, and both countries looked to the establishment of a new margin of currencies within 2.0 (that the

---

[686] *Foreign Relations of the United States*, Vol.3, Doc. 194, pp. 541-2. Before this meeting in Tokyo, on 9 and 10 September 1971, a meeting was held in the Japan-US Joint Committee on Trade and Economic Affairs. Connally required Japanese delegates agree to revalue at 25 per cent. After this, several meetings were held: G10 in Paris on 3 and 4 September; the meeting between Japanese Minister of Finance Mizuta and Pierre-Paul Schweitzer, IMF Managing Director, on 11 September; G10 meeting in London on 15 and 16 September. Following this, Mizuta declared the necessity to revalue the yen on 18 September. Office of Historical Studies, Ministry of Finance, Japan (ed.), *History of Fiscal and Monetary Policies in Japan, 1952-1973: Volume XII*, pp.397-8.
[687] *Foreign Relations of the United States*, Vol.3, Doc.194, p.540.
[688] Ibid.

French required) and 2.5 per cent (that the US preferred) in exchange for repealing the US import surcharge.[689] This was a concession warmly received by Pompidou, as one month prior to this meeting, Volcker had aimed to devalue the dollar by 11 per cent and set the exchange rate margins within +/−3.0 per cent.[690] Nixon suggested acceptance of a 5 per cent revaluation of the mark and 5 per cent more than that for the yen. Pompidou was willing to accept this level of devaluation of the dollar without devaluing the franc, the Italian lira and sterling.[691]

On 17 and 18 December at the Smithsonian, in line with the meeting in the Azores, the US devalued the dollar with the increase in the price of gold to $38 per ounce (an 8.57 per cent increase), and other currencies also revalued and devalued along the Smithsonian agreement. In this situation, the representatives of Japan, consisting of Mikio Mizuta, Minister of Finance, Tadashi Sasaki, Governor of the Bank of Japan, and Yusuke Kashiwagi did not have any power to negotiate over the new parity. Kashiwagi testified that Karl Schiller, German Finance Minister, required Japan set the revaluation of the yen, and then the other European countries would set their parities.[692] At the Smithsonian, the US side urged Japan to revalue the yen at 19 per cent against the dollar, 10 per cent against the franc and 5 per cent against the mark.[693] The Japanese side reluctantly suggested they would be able to accept revaluation between 14 and 15 per cent against the dollar. However, the most ferocious

[689] Kashiwagi, *Gekidouki no Tuuka Gaikou,* pp.15, 147. See also Solomon, *The International Monetary System*, pp. 204-9.
[690] Schenk, *The Decline of Sterling*, p.324.
[691] PREM15/325, telegram from Christopher Soames to the Prime Minister and the Secretary of State, 15 December 1971, and *Foreign Relations of the United States*, Vol.3, Doc. 220.
[692] Honda and Hata, *Kashiwagi Yusuke no Syougen*, p.64.
[693] Office of Historical Studies, Ministry of Finance, Japan (ed.), *History of Fiscal and Monetary Policies in Japan, 1952-1973: Volume XII*, pp.427-8.

critique was raised by Germany. Karl Schiller maintained the intransigent stance that Germany could only accept a 4 or 5 per cent gap of revaluation of the yen against the mark, in line with discussions at the Azores meeting. At this stage, Connally high-handedly set the gap between the yen and mark at 3.3 per cent.

Meanwhile, the Okinawa Reversion Agreement created a challenging situation for Japan to navigate: in exchange for the reversion, the US demanded Japan settle trade conflicts over the textile industry, threatening the Trade with the Enemy Act passed in 1917, make payment for the reversion of 320 million dollars, and provide circulated dollar currency in Okinawa to the Federal Reserve Bank.[694] In this situation the Japanese representatives were able to withdraw a minor concession of the rate of revaluation from 17 per cent to 16.88 per cent.[695] Japanese Minister of Finance Mizuta stated his concern following

---

[694] Okinawa was occupied by the US from the end of World War II until 1972. The official procedure for the conversion of dollars, which had been circulated in Okinawa in the period of occupation, into yen was as below. Firstly, $103 million was sent through the Naha branch of the Bank of Japan to the main island. This sum was sold to the foreign exchange special account. Secondly, $49 million of this was sold to the banks eligible for foreign exchange trading and they were to deposit the same sum into the account of the Japanese Ministry of Finance. The remaining $54 million was sent to the Federal Reserve Bank of San Francisco in exchange for the Federal Reserve Bank of New York depositing the same amount into the account of the Japanese Ministry of Finance. The other $130 million was bought through the foreign exchange special account at the rate of $1=\305. Office of Historical Studies, Ministry of Finance, Japan (ed.), *History of Fiscal and Monetary Policies in Japan, 1952-1973: Volume XI, International Finance and External Economic Affairs Part I* (Tokyo: Tokyo Keizai Inc., 1999), p.440.

[695] With the decision to revalue, the Japanese government published its economic plan to expand a variety of welfare expenditures and services, to conduct stimulatory economic measures, to make comprehensive reform of external economic policies, and to take measures for the development of the economy and welfare in Okinawa. Masanao Ito, *Sengo Nihon no Taigai Kinyuu: 360 yen rate no seiritsu to syuuen* (Nagoya: The University of Nagoya Press, 2009), p.310. In 1966, the Japanese government issued deficit-covering bonds for the first time since World War II and Takeo Suzuki termed this government finance embraced by national debts. Takeo Suzuki, *Nihon Kousai ron* (Tokyo: Kinyu Zaisei Jijyou Kenkyuukai, 1976), p.100. However, this trend further accelerated, taking the Smithsonian agreement as an opportunity for fiscal deficit expansion, continuing into further accumulation of public debt.

the tragedy of former Japanese Minister of Finance, Jyun-nosuke Inoue. Mizuta stated ‘because Jyun-nosuke Inoue was assassinated after he made a decision to revalue the Yen by 17 percent, 17 percent is not good. I don’t want to die.’[696] After the rate of revaluation of the yen was set, the parities of other currencies were determined.[697]

Once the new parities had been set, the ‘crisis’, dubbed the ‘dirty float’, between the Nixon shock and Smithsonian agreement was temporarily settled. The exchange rate margin against the dollar was determined at +/−2.5 per cent from +/−1 per cent. This represented a compromise between the French and the US preference. However, this margin - the so-called ‘tunnel’ - was problematic as it eventually allowed the currencies to fluctuate up to 9 per cent against each other. This led to the argument over narrower margins, known as the ‘snake in the tunnel’, prompting European monetary co-operation. With this, the UK faced dealing with the EEC, which was in the early stages of European monetary integration.

---

696 Honda and Hata, *Kashiwagi Yusuke no Syougen*, p.67. Kashiwagi wrote that Sato gave an indication of the limit of the revaluation of the yen at 15 per cent to Kashiwagi, and at 20 per cent to Mizuta. Takehiro Sagami, Japanese Vice Minister of Finance for International Affairs, showed his understanding of why Connally gave concession to Japan to decrease the rate of revaluation to 16.88 per cent. He wrote that Connally was seriously wounded during the assassination of Kennedy, hence Mizuta’s explanation would have resonated with him, in Hideo Tsuchiya, *1971 nen: Shijyouka to Net-ka no Kigen* (Tokyo: NTT Publishing Co. Ltd., 2014), p.87.

697 At the Smithsonian agreement, the Japanese yen was revalued against the dollar by 16.88 per cent. West Germany also revalued by 13.58 per cent against the dollar rate of May 1971. The UK and France did not revalue their currencies against gold, thus each currency appreciated by 8.57 per cent against the dollar respectively. On the other hand, Italy and Sweden devalued their currencies by 1 per cent against gold, which meant appreciation of 7.6 per cent against the dollar. Canada maintained its floating exchange rate. The Belgian franc and Netherlands guilder revalued by 11.57 per cent, and the Swiss franc revalued by 6.36 per cent. For the overall effects of managing the value of currencies, see James, *International Monetary Cooperation Since Bretton Woods*, p.237-8.

7.3 The development of foreign economic relations after Smithsonian

7.3.1 Anglo-American Bermuda meeting

Immediately after the settlement of the new exchange parities at the Smithsonian, the UK and the US held a meeting in Bermuda on 20 and 21 December 1971. This meeting covered a broad range of topics, including the balance of power between the USSR and China, however this section focuses on international monetary reform and international economic relations.

At this meeting, Prime Minister Heath explained that the UK expected it would achieve EEC entry and further political co-operation within the larger EEC.[698] Concerning objections against the accession to the EEC, Heath reported the balance of payments could be an issue, although the Smithsonian agreement was predicted to have a favourable impact on it. Heath complained about the sluggish handling of monetary issues by the IMF and expressed his view, which was shared by President Pompidou, that the UK would need to 'progressively run down' the obligations of sterling balances. In order to achieve this gradual deposing of sterling's reserve currency role, Heath desired substitution of the SDRs for sterling and dollars, and maintenance of convertibility or relations between gold and the dollar. Nixon did not disagree with this, however, regarding convertibility of the dollar, he took the line that it should not be clarified, mentioning that he 'would wish to keep "fuzzed up a

[698] TNA, PREM15/1268, Record of a Meeting at Government House, Bermuda, Tuesday 21 December 1971, 10 a.m., in Talks between the Prime Minister and the President of the United States at Bermuda, 20-21 December 1971.

bit".'[699] With respect to the convertibility of gold, Connally cast doubt on the sustainability of an exchange rate system without the support of a powerful political entity, the vulnerable centripetal force of IMF and the effectiveness of SDRs, and expressed his preference for the floating exchange rate system, at least for two years.[700] Chancellor of the Exchequer, Anthony Barber, asserted that 'pure' floating might not work effectively, and even the narrower margins, which were pursued by EEC members, would be difficult to achieve. The Chancellor therefore favoured maintenance of the fixed exchange rate system, with greater flexibility.

Heath also emphasised the need to maintain close Anglo-American relations, stating that 'Britain did not intend to pursue a "pro-European" policy; she intended to pursue the policy which best served British interests and these included maintaining the closest links between the two sides of the Atlantic.'[701] He added, 'We should seek to develop common credit policies, common policies in response to unilateral expropriations and so forth; and we should try, at the same time, to rationalise policies - *e.g.* in relation to regional development - within the EEC itself.'[702] Concerning foreign relations and British entry into the EEC, Nixon's sentiment was reported thus:

> The President replied that President Pompidou had struck him as more self-confident than at their earlier meetings and more evidently in charge of French policy. In the monetary discussions he had adopted a

[699] Ibid.
[700] TNA, PREM15/1268, Note of a Meeting at the Princess Hotel, Bermuda, Monday 20 December 1971, 2.30 p.m., in Talks between the Prime Minister and the President of the United States at Bermuda, 20-21 December 1971.
[701] TNA, PREM15/1268, Record of a Meeting at Government House, Bermuda, Tuesday 21 December 1971, 10 a.m., in Talks between the Prime Minister and the President of the United States at Bermuda, 20-21 December 1971.
[702] Ibid.

> pretty tough attitude. At the same time he had been less parochial in his outlook and had been concerned that the discussion should deal not merely with technical monetary problems but also with wider political issues. He was evidently anxious to play a world role; and in this context the British entry into the European Economic Community (EEC) could be helpful. The United States Government favoured British membership of the Community precisely because they were convinced that it must comprise at least one member who was capable of taking a world view of events. At present neither the Germans nor the French nor the Italians were equipped to do so, whereas, for historical reasons, the British were an outward-looking people by contrast with the French, whose understanding of world affairs was even less than that of Japanese. At the meeting at the Azores he had made it plain to President Pompidou why the United States Government endorsed British entry into the EEC, even though it was not likely to be to American advantage in commercial terms. But it would help to make of the Community a new centre of political unity (with certain military implications in the longer term); and the United States were counting on the British to seize the opportunity for leadership within the enlarged Community and to encourage Europe to develop greater internal unity and cohesion.[703]

This Bermuda meeting is recognised as one of the turning points in the movement to improve the Anglo-American relationship by both sides. It can certainly be said that it was an opportunity to thaw the frosty Anglo-American

---

[703] TNA, PREM15/1268, Record of a Meeting at Government House, Bermuda, Monday 20 December 1971, 1.30 p.m., in Talks between the Prime Minister and the President of the United States at Bermuda, 20-21 December 1971. It is detailed that Nixon also considered that the US and UK 'took a world view of affairs to an extent which others - even the French and Germans - did not. He had been greatly encouraged to hear from the Prime Minister an account of the role which Britain would play in the new Europe. There might be a temptation for Europe to play the role of a third force in the world. It would indeed be a third force. But it was essential that Europe and the United States should co-operate closely. He would be less than candid if he did not admit that there were growing feelings of isolationism in the United States. These came from labour, from people in industry who saw their trade threatened by competition from Europe, and from those who thought that the United States was bearing too great a share of the defence burden in the Western world. If Europe were to develop as an inward-looking, isolationist regional grouping, this would have a very unfortunate effect on these trends in the United States. For this reason it was essential to establish a kind of relationship which would enable the close co-operation to continue.' TNA, PREM15/1268, Record of a Meeting between the United Kingdom and United States Delegations, Led by the Prime Minister and President Nixon, at Government House, Bermuda, Tuesday 21 December 1971, 2.30 p.m., in Talks between the Prime Minister and the President of the United States at Bermuda, 20-21 December 1971.

relationship, even if it was just within diplomatic courtesy. However, it should also be emphasised that in the context of economic relations, there remained significant conflicts, such as surrounding the reform of the IMF and sustainability of a fixed exchange rate system underpinned by the convertibility of dollars with gold. It should be added that as opposed to the account in which the UK was keen to avoid the role of passing US interests into the EEC, both the UK and the US, at least ostensibly, shared 'common' objectives to pursue within and for the EEC. This leads to the inevitable question of how to disentwine and understand the complex meaning of the Bermuda meeting. Cromer's account provides a key understanding of the Bermuda meeting. While British Ambassador to the United States, Cromer evaluated the Bermuda meeting as having 'cleared away some difficulties and irritations.'[704] He further stated that regarding future negotiations,

> There are bound to be strains from time to time as we pursue our European vocation. I should be the last to suggest that we should not work for common European policies and I believe that the Americans will understand it when we do. On the other hand, we shall no doubt want to avoid proclaiming our Europeanness vis-à-vis America when there is no practical need for it, and thus reviving memories of the anti-American "Europe Européenne" of General de Gaulle.[705]

Cromer, mindful of relations with the US moving forward, sought to avoid any backlash from the US in reaction to the UK's relationship with Europe. He further added in his communication to Sir Alec Douglas-Home, Secretary of State for Foreign and Commonwealth Affairs,

[704] TNA, PREM15/1278, United States Annual Review for 1971, Cromer to Sir Alec Douglas-Home, 5 January 1972.
[705] Ibid.

> As I understand it, Sir, it is your policy to go on enjoying the very considerable advantages we still derive from our "natural" relationship with America, in fact to have our cake in Europe and to eat it in America.[706]

In short, the UK did not solve the international monetary issues including dollar convertibility and reform of the IMF. However, the UK successfully circumvented confrontation with the US on accession to the EEC, and found its own position between the US and Europe in which the UK had the potential to gain what it saw as the maximum economic and political benefits from international economic relations. This was well matched with the objectives set by the UK on 16 August 1971, which were to achieve maximum benefit from the arrangements of Anglo-American and Anglo-European relations in the period of reforming the international monetary system.

7.3.2 Joining the snake in the tunnel

Once the new parities had been set at the Smithsonian, and the UK and US saw on the horizon constructive relationships after British entry into the EEC, the UK embarked on joining the snake in the tunnel. This established a foothold for European monetary integration. As a first step towards this integration, the Werner Plan, initiated by Prime Minister of Luxembourg Pierre Werner, was

[706] Ibid. Heath frequently used the term 'natural relationship'. Dumbrell explained this as an unbreakable relationship with the basis of a common history. In contrast, the 'special relationship' was breakable by either country. See Dumbrell, *A Special Relationship*, p.73.

circulated on 8 October 1970.[707] The objective of this plan was to achieve 'economic and monetary equilibrium' and economic growth with high employment and stability. For these purposes, this report required establishment of a monetary union, so as to have an 'irreversible convertibility of currencies' and 'irrevocable fixing of parity rates'. Margins of exchange rates would be removed, free capital movement would be complete, accompanied by the Community currency. This plan also targeted centralised, unified monetary policies and harmonisation of fiscal policies. As a first step, this plan recommended narrowing margins in January 1971 on an experimental basis, which would be *de facto* concerted action against the fluctuation of the dollar.[708]

After the Werner Plan raised the scheme for gradual but eventual European economic integration, EEC member countries pushed the UK to join the narrower margin scheme. When Anthony Rawlinson at the Treasury asked Ossola whether he assumed the UK would participate in the scheme with arrangements of mutual lending and borrowing within the EEC, Ossola responded that since the EEC members had provided support for sterling, they assumed the UK would take part in this operation. Furthermore, Ossola stated, 'if the IMF were to introduce a facility for wider margins [...] the EEC countries would "expect" the UK, as an applicant for EEC membership, not to avail itself of the new facility even though not yet a member of the EEC.'[709] Rawlinson regarded participation in the narrower margin scheme as somewhat disadvantageous for the UK. However, he concluded that 'the disadvantages

[707] Report to the Council and the Commission on the realisation by stages of economic and monetary union in the Community, 'Werner Report', 8 October 1970.
[708] TNA, T312/2788, David Hannay to Richard Burges Watson, 14 September 1970.
[709] TNA, T312/2788, Anthony K. Rawlinson to Sir Frank Figgures, 29 October 1970.

would be relatively small and far outweighed by the difficulty - probably impossibility of not joining in as a member of the Community.'[710] Additionally, he reported that the Chancellor had stated in Copenhagen to push for preparation to join this scheme as a member.[711]

Meanwhile, technical problems with the snake were also focused upon within the UK government.[712] At the time, maintenance of exchange parities among EEC member countries was conducted mainly in the dollar market due to lack of sufficient mutual holdings of currencies of the member countries. Hence, the member countries controlled their own currencies' spot rates within the band of +/- 0.75 per cent against the dollar value. In this situation, there were two potential schemes that were proposed to achieve narrower intra-EEC margins: to intervene in the dollar market, or to directly intervene in each other's currencies. The former risked provoking conflict between the central banks of EEC countries, which would experience uneven burden for supporting the other currency, arising from asymmetric values of currencies. This would inevitably urge the central banks to buy or sell more dollars. In addition, the Werner Plan did not sufficiently consider the forward market, in which operation was one of the pivotal roles to check speculative pressure. Meanwhile, direct intervention in one another's currencies would allow the central banks to hold foreign currencies only for intervention purposes, which was recognised as a virtual guarantee given on the short-term swap facilities within EEC member central banks.

---

[710] TNA, T312/2788, draft paper attached to letter from Anthony K. Rawlinson to Mrs. Hedley-Miller, 4 November 1970.
[711] Ibid.
[712] TNA, T312/2788, Treasury Group on the Implications of European Economic Harmonisation, 16 December 1970.

Although technical issues remained, on 9 February 1971, the Council of Ministers approved the Werner Plan. Subsequently, EEC countries agreed to introduce the narrower margin scheme, which would reduce the band of fluctuations between Community currencies to 0.6 per cent from 0.75 per cent on either side of parities from 15 June 1971, while maintaining the 0.75 per cent margin with the dollar.[713] However, when the German mark and Netherlands guilder were forced to temporarily float in May 1971, this decision was temporarily shelved.[714]

In the aftermath of the Nixon shock, on 19 and 20 August 1971, the Chancellor had held consultations with the EEC Finance Ministers. At this meeting, Benelux countries proposed limiting the fluctuations of the margins of the EEC to 1.5 per cent, which would be conducted by central bank intervention with short-term credits.[715] Repayment would be settled not in dollars but in gold, SDRs and drawings on the IMF. This proposed method of repayment was harshly opposed on 'political grounds as unduly provocative, and even more on strictly practical grounds'.[716] No agreement was reached at this consultation as Italy and other members, who had acquired a large sum of dollars in their foreign reserves, could not accept this proposal. On the other hand, consideration was also given to widening the margins against the dollar in order to settle the turmoil over currency management that had been raging since 15 August. However, the Chancellor emphasised the importance of co-operation with the EEC, stating that 'we had to avoid a situation which would damage our

---

[713] James, *Making the European Monetary Union*, pp. 80-1.
[714] TNA, T312/2788, International Monetary Fund: the EEC and Wider Margins by Economic Counsellor of the IMF Jacques J. Polak, 21 July 1971.
[715] TNA, PREM15/309, Note for the Record, International Monetary Crisis, The Chancellor of the Exchequer's Visit to Brussels on 19 and 20 August 1971 for Consultations with EEC Finance Ministers, Annex A: The Proposals Considered by the Council of Ministers.
[716] Ibid. One of the countries opposing this is detailed in the document as Italy.

competitive and trade position and our balance of payments in the medium term, so we should not wish to see our margins against the dollar widened substantially.'[717] This demonstrates consideration of the issue of margins from the European perspective.

In late December 1971, after the Smithsonian agreement, the momentum to establish EEC narrow margins - the 1.5 per cent snake in a 4.5 per cent tunnel - began again under the chairmanship of Marcel Théron, Director General for Foreign Services at the Banque de France.[718] On 7 and 8 January 1972, in the UK, sentiment was against the 1.5 per cent 'serpent' in a 4.5 per cent tunnel, in a line shared by Italy. The UK also urged acceptance of intervention in both dollars and EEC currencies, which should be settled in dollars. Moreover, it was argued that the discretion of each country to change its central rate ought not be impaired.[719] Richard Hallett at the Bank of England reported that in contrast with 'the Germans at the limit of rigidity - no intervention except at margins', the UK was 'at the other end, flexibility - complete freedom to intervene in dollars or community currencies subject in the first case to ex post facto concertation and, in the latter, the agreement of the counterpart country only.'[720] On 10 January, at the Basle meeting, Sir Leslie O'Brien attacked the proposed reduction of margins from 4.5 to 1.5 per cent as not the 'best solution' and urged change towards 'the best and most acceptable' scheme.[721] However, the

[717] TNA, PREM15/309, Note for the Record, International Monetary Crisis, the Chancellor of the Exchequer's Visit to Brussels on 19 and 20 August 1971 for Consultations with EEC Finance Ministers.
[718] TNA, T312/2992, Anthony K. Rawlinson to Alan D. Neale, 29 December 1971.
[719] BoEA, 6A103/1, E.E.C. Meeting on Margins 7 and 8 January 1972, Richard Hallett to Jeremy Morse, 10 January 1972.
[720] Ibid.
[721] BoEA, 6A103/1, Minutes of the Fifty-Fifth Meeting of the Committee of Governors of the Central Banks of the Member States of the European Economic Community held in Basle, Monday 10 January 1972, 10:30 a.m.

Nederlandsche Bank Governor Jelle Zijlstra insisted the 1.5 per cent margin had previously been in operation and return to this margin could ‘eliminate or simplify the complex system of levies and subsidies at present in application’ surrounding the Common Agricultural Policy (henceforth, CAP). Moreover, he emphasised the salient point that narrowing margins by intervention in EEC currencies would ‘entail a weakening of the dollar’s monopoly as an intervention currency and thus of its very role.’[722]

Jeremy Morse, Executive Director of the Bank of England, reported on this meeting to the Treasury. It was reported that Raymond Barre, French European Commissioner for Economic and Financial Affairs, proposed a 2 per cent band rather than 1.5 per cent, and it was recognised that ‘any system of intra-E.E.C. settlements must make some provision for the use of dollars’.[723] Regarding the conflict over the use of the dollars, Rawlinson, of the Treasury, asserted that ‘We want our dollars, which are by far the largest element in our reserves, to be usable.’[724]

While there remained significant divergence amongst member countries, the narrower margin scheme was strongly preferred. Behind this, it was considered that narrower margins would not only mean a step towards European monetary integration, but would also reduce the strain on the CAP via stabilising the fluctuation of currencies and common agricultural price, which would contribute to the removal of border arrangements conducted in periods of floating. This

[722] Ibid.
[723] TNA, T312/2992, Jeremy Morse to Alan D. Neale, 12 January 1972.
[724] TNA, T312/2992, Anthony K. Rawlinson to Alan D. Neale: Narrowing EEC Margins, 12 January 1972. Rawlinson reported that the Dutch and Belgians tried to reduce the influence of the dollar due to a lower proportion of dollars in their foreign reserves.

scheme was also predicted to foster intra-EEC trade.[725] British Ambassador to West Germany Sir Roger Jackling's analysis of the adherence to narrowing margins by France and Germany was made clear in correspondence within the Treasury:

> …there would be strong political pressure to do this. He supposed that the French would be keen on it, and that the Germans would feel a strong political compulsion to go along with the French. Because of the criticism within Germany of alleged preoccupation with Ost-politik, Brandt would feel it of high importance to make a success of the forthcoming EEC summit.[726]

It was reported that Germany, Italy and the UK supported a 2.25 per cent snake, while France, the Netherlands and Belgium preferred 1.5 per cent, marking a clear divide within the Six.[727] Germany attempted to set rigid rules on the intervention conducted in EEC currencies for the snake, and in dollars for the tunnel, without any intervention except at limits. This was unacceptable for the UK, since it would potentially lose its discretion to buy in the EEC currency market, except in periods requiring intervention.

On 3 February, Raymond Barre notified Michael Palliser, UK Ambassador and Permanent Representative to the European Communities, that the 'broad consensus' was in favour of margins at 2.25 per cent, without any difficulties

---

[725] TNA, T312/2992, Anthony K. Rawlinson to Mrs. Hedley-Miller: Narrowing Intra-EEC Margins, 17 January 1972. Raymond Barre expressed his view that exchange rate spread wider than 2 per cent would potentially damage CAP, see TNA, T312/2993, C. V. Peterson to Robson, 8 February 1972.

[726] TNA, T312/2992, Anthony K. Rawlinson to Alan D. Neale: Visit to Bonn, 21 January 1972.

[727] TNA, T312/2992, Anthony K. Rawlinson to Alan D. Neale: The snake in the tunnel, Date Unknown (between 21 and 27 January 1972).

predicted.[728] However, he pointed out that the ‘agricultural directorate’ realised that margins wider than 2 per cent would jeopardise the CAP and make it ‘unworkable’. He stated that this was ‘why the Commission’s paper had proposed 2 per cent.’ The UK Treasury began to consider setting margins at around 2 per cent.[729]

This situation changed when accord over the margins was reached between Brandt and Pompidou. The UK Treasury and the Bank were still concerned with potential disadvantages arising from narrower margins that could provoke speculative pressure on sterling and lead to loss of discretion over foreign exchange intervention. Concerns also existed as to whether they could use dollars for interventions. However, while holding these misgivings, the Treasury and Bank reluctantly reached the consensus to join the scheme.[730] On 14 February, general agreement over the margins at 2.25 per cent was reached under the chairmanship of Guido Carli, Governor of the Banca d’Italia, at the meeting in Basle of the Committee of the Governors of the EEC.[731] On 21 March, the resolution was reached that the Council would request member central banks conduct intervention for maintaining their currencies within the 2.25 per cent margins against the bilateral parity, while keeping their parities against the dollar within 2.25 per cent.[732] The intervention for maintenance of

---

[728] TNA, T312/2993, Note of a talk with the members of the European Commission Responsible for Economic and Financial Affairs, 3 February 1972.
[729] TNA, T312/2993, Alan D. Neale to A.M. Bailey: European Monetary Committee, 9 February 1972.
[730] TNA, T312/2993, Note for the Chancellor of the Exchequer: Narrowing Margins, attached to letter from Anthony K. Rawlinson to Sir Alan D. Neale, 11 February 1972.
[731] TNA, T312/2993, Jeremy Morse to Alan D. Neale, 15 February 1972. See also TNA, T312/2993, Leslie O'Brien to Guido Carli, 18 February 1972.
[732] TNA, T312/2995, Resolution of the Council and of the Representatives of the Governments of the Member States of 21 March 1972 on the application of the Resolution of 22 March 1971 on the attainment by stages of economic and monetary union in the Community.

currencies within the 2.25 per cent margin through intervention was termed the 'snake', which moved within the 'tunnel', set according to the Smithsonian agreement. Moreover, the Council requested the central banks use Community currencies and dollars for the intervention, and to settle balances arising from intervention within one month. On 10 April, central banks reached the Basle agreement, which settled the technical issues and arrangements, and the Six embarked on this intervention on 24 April 1972.[733] On 26 April, the UK decided to join the scheme from 1 May 1972.[734] However, on 23 June 1972 when sterling began to float, the UK walked away from this fixed parity scheme with narrower margins.

Under the narrower margins scheme, the spot exchange rates of member currencies would not fluctuate more than 2.25 per cent against each other. Regarding the rates, each central bank set the limit of rates at which the intervention began. This intervention was conducted in dollars and Community currencies when the spot rates reached the limit rates, however, dollar intervention would be subject to initial consultation or 'concomitant consultation' amongst member central banks.[735] Obtaining other Community currencies for intervention was to be financed by swaps with other central banks, while one central bank's purchase of member currencies in their market was to sell the resulting holding forward to the central bank. Therefore, the weaker currency held in the reserves of creditor countries was a guaranteed amount. The member currencies obtained for the purpose of intervention would earn interest at the arithmetical average rate of discount rates in the member countries. For

[733] TNA, FCO 59/788, Narrower exchange rate margins in the European Economic Community, 22 May 1972.
[734] TNA, T312/2995, Narrower exchange rate margins in EEC by A.R.H. Glover, 22 May 1972.
[735] TNA, FCO 59/788, Narrower exchange rate margins in the European Economic Community, 22 May 1972.

conducting intervention when the spot rates were within the limits, whether in dollars or Community currencies, consultation among member central banks was required. In the situation of one central bank holding insufficient amounts of member currencies for intervention, each central bank would need to agree to arrange for the intervention. Each currency could change its parities in order to correct fundamental disequilibrium under this scheme, however, it was necessary to make initial consultation with the IMF. The debt was required to be settled on the last working day of the following month, however, it would be renewable if both central banks agreed. The settlement should be paid initially from the debtor's reserves in the creditor country's currency, if sufficient reserves did not exist, it should then be paid in the debtor's gold or gold related assets.

From this chronological process of the formation of and UK's entry into a narrower margin scheme, it is clear that the UK, initiated by the officials of the Treasury and the Bank, realised the significance of narrower margins for fostering favourable Anglo-EEC relations before EEC accession was made. However, UK officials and the Chancellor, and perhaps Prime Minister Heath, shared the consensus to set margins as wide as possible in order to gain economic benefit or minimise the disadvantages from the scheme. In this sense, the UK did not share the enthusiasm held by EEC member countries for their desired degree of monetary integration.

7.3.3 Snake, floating, and the development of international monetary co-operation

The gradual advance of the ‘experimental’ step towards the economic and monetary integration heralded the shift in international economic relations. On 3 March 1972, French Finance Minister Valéry Giscard d'Estaing unambiguously conveyed a signal in his speech to European and American bankers against US external monetary policy. He predicted that the use of enlarged EEC currencies for settlement would lead to the arrival of ‘the beginning of a real economic and monetary union in Western Europe - experimental and gradual to begin with, but soon irreversible’.[736] He continued that he saw ‘no chance of finding a stable monetary order again if the USA continues its present disappointing and perplexing external monetary policy.’[737] He declared thus:

> the era of European floating and of European revaluation as a group is over. You have only to look at the difficulties in some of our partners to see that any suggestion of collective acceptance of a further concerted revaluation of European currencies at present is completely unacceptable. Moreover, the era of massive central bank purchases of dollars is over. This is not a statement of preference but of widespread political reality.[738]

After this recalcitrant and defiant statement, Giscard d’Estaing urged the member countries jointly advance the international monetary reform for the

---

[736] TNA, PREM15/812, telegram from Christopher Soames to Foreign and Commonwealth Office, 11 March 1972. This telegram was circulated to the UK Treasury and the Bank of England.
[737] Ibid.
[738] Ibid.

purpose of replacing the reserve currency with SDRs, in a move he termed 'objective liquidity'.

The reform of the international monetary system also gathered the UK's attention. A significant point that concerned UK officials was economic relations with the US and EEC. Cromer's argument on this attracted the interest of Prime Minister Heath. Concerning the UK confronting the US over international monetary reform, Cromer discerned that the UK's actions would raise,

> …the question whether we are really friends of America or of the French *et al*. I have no doubt in my mind that the Americans will exploit this if it suits them. We for our part need to act in our own interests which may well be to contain French extremism but obviously cannot be to side with the Americans against our European partners.[739]

Although this argument did not resonate with the Chancellor, Prime Minister Heath commented, 'I agree with everything Lord Cromer says in his telegram. This is vital.'[740] At this point, Heath's aim showed some resemblance to previous Prime Minister Harold Wilson's aim to exert British 'leadership' in the

[739] TNA, PREM15/812, telegram from Cromer to the Chancellor of the Exchequer, 8 May 1972.

[740] TNA, PREM15/812, Robert Armstrong to A.M. Bailey, 10 May 1972. There was conflict over foreign economic relations between the Chancellor and Cromer. Cromer expressed his concern in handwritten communication to Robert Armstrong that the Chancellor was not approaching Connally in an effective manner during negotiations, and that this approach alone would be ineffective in bridging between Europe and the US. Cromer reported that 'The Ch: of the Exch: has clearly not grasped the EEC opportunity in the situation and is approaching the negotiations on the basis that if he personally is nice to Connally that he will be able to bridge the gap between Europe and the US. I personally think that this would end up by us falling into the gap between both. Knowing all the personalities as I do, I think that this could be the worst of every world. This is I fear what will happen unless the PM engages himself in the matter'. TNA, PREM15/812, Cromer to Robert Armstrong, 2 May 1972. This letter was handed to Heath.

EEC.[741] It is evident that the realistic political course for the UK was not to go in line with the US, nor to become a docile partner of the EEC, or to become stuck in the gap between the US and EEC, but to achieve a favourable international monetary system through fostering monetary reform with or from within the EEC.[742]

However, the UK's monetary co-operation with the EEC was suddenly suspended with the decision to float sterling on 23 June 1972. In the UK, ministers, and officials of the Treasury and the Bank had started to consider floating as 'the policy of last resort'.[743] Catherine Schenk has already delineated the chronological process behind the decision to float between 15 and 23 June 1972. This section therefore briefly describes the decision, focusing mainly on international monetary relations.[744]

On 15 June 1972, it was reported that the Royal Group of Docks and Merseyside Docks would go on strike, and on the same day the sterling parity

---

[741] For Wilson's aims behind the application for joining the EEC, see Helen Parr, 'Britain, America, East of Suez and the EEC: Finding a Role in British Foreign Policy, 1964-67', *Contemporary British History*, Vol.20, No.3 September 2006, pp.403-21.

[742] In line with Cromer and Prime Minister Heath, Governor of the Bank of England Leslie O'Brien communicated his advice to the Chancellor. In September 1971, in the aftermath of the Nixon shock, O'Brien stated, 'If the Americans stand pat [...] we must play our part in trying to create the maximum possible area of stability [...] The nucleus of such an area of stability is most likely to originate from the E.E.C. [...] We should of course have to protect our own interests as best we may but not to the point of standing out [...] we have long played a leading role in the international monetary field and, against the background of our present strong balance of payments position, I believe the time has come for us in some measures to reassert ourselves. [...] I believe we should even at some risk, and indeed sacrifice if necessary, be prepared to give a lead towards developing an orderly and outward-looking association of major countries, assembled not in hostility to the U.S.A. but, on the contrary, with the object of taking some of the heat and confusion out of the present situation.' BoEA, G41/2, the Governor to the Chancellor, 7 September 1971.

[743] Michael J. Oliver and Arran Hamilton, 'Downhill from devaluation: The battle for sterling, 1968-72', *The Economic History Review*, Vol.60, No.3, 2007, pp.509-10.

[744] Schenk, *The Decline of Sterling*, pp.329-40.

began falling.[745] This prompted the UK, France and Belgium to embark on intervention according to the narrower margin scheme, with the Federal Reserve also joining the intervention.[746] On 19 June, Denis Healy, Opposition Shadow Chancellor of the Exchequer, mentioned possible impending devaluation, which had the effect of pulling down gilt prices.[747]

On 21 June, Prime Minister Heath, somewhat reluctantly, and Barber agreed to increase the Bank Rate from 5 to 6 per cent from the following day.[748] At this meeting, they discussed whether to devalue or float. It became apparent that floating sterling, even temporarily, would breach the narrower margins scheme and obligations to the IMF. However, Barber favoured floating, as devaluation would need to be accompanied by deflationary measures. Moreover, Barber was confident that the UK could reconcile EEC counterparts to accept a temporary float by showing intention of returning to the fixed parity.[749]

At the meeting held at 2.30 p.m. on 22 June, attended by the Chancellor, officials of the Treasury and Jeremy Morse, Executive Director at the Bank of England, it was reported that capital outflow continued. The figure had reached

[745] TNA, T312/2995, Anthony K. Rawlinson to A. M. Bailey, 15 June 1972. The other causes behind intensification of the speculation around sterling were considered thus: inflation in the UK would potentially deteriorate the trade balance; the Chancellor's statement in Parliament provoked concern over whether the UK would defend the parity or not; the reversal of the ruling by the National Industrial Relations Court on the Chobham Farm container dispute; the rise in money stock arising from the strong demand for bank credit partly caused by property boom.

[746] The UK spent $500 million to support the exchange rate for two days from 15 June 1972.

[747] TNA, PREM15/812, Note for the Record of a meeting at 10 Downing Street on 21 June, 4.30 p.m., by Robert Armstrong, 3 July 1972.

[748] Ibid. The Prime Minister initially showed his reluctance to raise the Bank Rate. He preferred the special deposits scheme and to have the Bank of England require clearing banks to keep part of their assets in gilt-edged securities.

[749] Ibid. In this meeting, it was argued that statutory prices and incomes policy might restore confidence, however Heath doubted the credibility of such a scheme due to the ineffectiveness of this experienced in the 1960s.

$1,000 million, the cumulative total including the previous week was predicted at between $2,500 and $3,000 million.[750] In this meeting, closure of the foreign exchange market was agreed. Further consideration was given to devaluation or floating sterling. Barber showed his preference for floating due to ‘some domestic political advantage’, and a message from Sir Alan Neale reported that the European countries would prefer floating.[751] In this meeting, Barber agreed a temporary float with a declaration of intent to return to a fixed exchange rate system. The floating rate would be allowed to fall to around $2.40 without further substantial support. At the 4:15 p.m. meeting later the same day, the Prime Minister approved the proposal for a temporary float, with closure of the exchange market on 23 and 26 June.[752] Although the UK ‘still had considerable reserves and without having to borrow’, the decision to float was taken.[753]

Gaining the acceptance of EEC countries for floating, with the avoidance of the need for accompanying deflationary measures, were key factors in the decision to float sterling. This decision forced the UK to step away from the narrower margins scheme. Regardless of this, the UK had not been keen to stay in this scheme. Leslie O’Brien evaluated that the decision to float was ‘right’ because he saw the governors of the EEC central banks as ‘friendly and understanding’, with no signs of ‘recrimination’ against the UK. O’Brien detailed the ‘risk of escalation of the crisis, and a breakdown of the Smithsonian

[750] TNA, T354/275, Note of a meeting in the Chancellor of the Exchequer’s room, 22 June 1972, 2.30 p.m., by A.M. Bailey.
[751] Ibid. It was pointed out that the US would prefer floating, and the message from Sir Alan Neale reported that rather than devaluation, floating would prove more acceptable to Europe.
[752] TNA, PREM15/812, Note for the Record on a meeting at 10 Downing Street, 22 June, at 4.15 p.m., by Robert Armstrong, 3 July 1972.
[753] TNA, PREM15/812, Note of a meeting held in two parts in the Prime Minister's room at the House of Commons on Thursday 22 June 1972. In these two meetings at 6.00 p.m. and 10.00 p.m., the Prime Minister and the Chancellor informed the ministers of the approved decision.

Agreement', and it was reported that it 'was the Governor's hope that these events would lead to the abandonment of the experiment in narrower margins for Community currencies ("the snake").'[754] In this sense, it can be assessed that the decision to float was not just a systematic change but also gave the UK and the Bank pretext to escape from the 'snake', a prelude to European monetary integration.

Finally, settlement of narrower margin intervention should be noted. By the end of July, the UK needed to settle the balance of $2,562 million debt to EEC member countries (Figure 7-1). Due to the relatively small proportion of gold in its reserves, UK officials sought to settle in a different method for the payment of $630 million in gold-related debt (Figures 7-1 and 7-2).

Figure 7-1: Debt and its Breakdown, End of June 1972 ($ Millions)

	Belgium	France	Germany	Norway	Holland	Total
Gold Tranche	24.8	39.5	141.8	5.5	8.6	220.2
SDRs	19.6	31.2	112.1	4.4	6.8	174.1
Gold	26.6	42.3	151.7	5.9	9.2	235.7
Sub total	71.0	113.0	405.6	15.8	24.6	630.0
US dollars	201.7	321.3	1152.7	45.1	70.0	1790.8
Other	15.9	25.3	90.7	3.6	5.5	141.0
Total	288.6	459.6	1649.0	64.5	100.1	2561.8

Source: BoEA, 6A103/2, Richard Hallett to Jeremy Morse: EEC Settlement, 17 July 1972.

[754] TNA, PREM15/813, Note for the Record by Robert Armstrong, 29 June 1972.

Figure 7-2: UK Reserves End of June 1972 ($ Millions)

Gold Tranche	760 (8.6%)
SDRs	605.9 (6.8%)
Gold	814.3 (9.2%)
US dollars	6,201.9 (69.9%)
Other	492.4 (5.5%)
Total	8874.5 (100%)

Source: BoEA, 6A103/2, Richard Hallett to Jeremy Morse: EEC Settlement, 17 July 1972.

The Bank proposed drawing $630 million from the IMF, of which up to half would be SDRs and the rest in EEC currencies. Repayment would then be made to the EEC creditors.[755] This would reduce the IMF holdings of EEC currencies and be transferred to the creditors' reserve positions. Thus, this scheme would avoid significant reduction in the 'ultimate reserve' - gold - and gold-related assets, from the UK foreign reserves. On 19 July, Sir Alan Neale and Jeremy Morse explained this scheme to Heath and Barber. Morse argued that the gold prices would rise significantly, and the SDRs would hold their gold value for two years. Prime Minister Heath accepted this argument and suggested that 'we might take this opportunity to join our E.E.C. partners in including our reserve positions in the Fund in our published reserves'.[756] On 26 July 1972, the means of settlement for the narrower margin intervention was determined. It was agreed to settle the balance in member currencies, gold, and gold-guaranteed assets, which were SDRs and IMF reserve positions. In line with this agreement, the UK used IMF reserve positions including the gold

[755] BoEA, 6A103/2, Draft Minute to the Prime Minister, EEC Settlement: Drawing on IMF Reserve Position, 14 July 1972.

[756] BoEA, 6A103/2, Jeremy Morse to the Governor: End-July Settlement, 20 July 1972. Barber shared the opinion of the Prime Minister, urging exploration of the possibility of making such a change by the end of July.

tranche for settling $630 million.[757] From the perspective of the settlement for the intervention, the UK's attitude towards the international monetary scheme can be clearly observed. Accumulation of gold, or at least avoidance of reduction of gold and gold-related assets, was still of high priority, with less heed paid to international monetary relations, particularly with the EEC.

7.4 Conclusion

The international monetary system of the early 1970s entered a new phase, contrasting to that of the 1960s. The Nixon shock was the *de facto* collapse of the Bretton Woods system in which the dollar had underpinned the numeraire of exchange rates. On the other hand, the decline of the prestige of the dollar as a reserve currency heralded the rise of European monetary co-operation and provoked international monetary reform. According to the survey of existing research, as seen above, during this transitional era, the Anglo-American relationship might be termed barren or heading towards the rekindling of a further 'special relationship'. On the other hand, there is no doubt that the UK gradually deviated from US monetary influence towards Anglo-EEC monetary co-operation. This chapter has focused on how the transition of the UK approaching the EEC was achieved, without provocation of a significant US backlash, and without being incorporated into EEC regionalism striving against US dominance in the monetary field.

It should be emphasised that in the period of the Nixon shock and Smithsonian agreement, the UK utilised Japan as a common target during the

[757] BoEA, UK Settlement for Exchange Market Intervention, 26 July 1972.

multilateral negotiations over the resetting of exchange rates. Manoeuvring the US and EEC countries into placing additional burden on the Japanese yen was a key strategy employed by the UK, enabling it to successfully circumvent confrontation with the US. This avoided the creation of additional obstacles for the achievement of UK accession into the EEC, with the UK forging its own position between the US and Europe. In this way, the UK secured and maintained bilateral monetary relations (Anglo-American) and its regional aspirations (Anglo-EEC) through using a multilateral aspect (Japan). Subsequently, the UK attempted ostensibly to establish favourable foreign relations with the US at Bermuda. However, behind this decision, the UK had unambiguous but complex objectives. Firstly, the UK was keen to gain maximum economic benefits from the process, with the outcome of on-going reformation of the international monetary system. It also pursued minimising the cost and risk placed on sterling from joining the overture of European monetary integration, i.e. snake. In this situation, the UK strived not to be a bridge, but to achieve a position not deeply integrated in the EEC, from which it could put influence on the US via its half-hearted European stance.

These objectives directly reflected the attitude and strategy of the UK within the formation process of snake. The UK showed its hesitation to join this integrated monetary scheme, aiming to achieve minor reformation. After participation in the snake, the UK paradoxically succeeded in its escape from the serpent by its failure to defend sterling in June 1972. Moreover, during the negotiation over the settlement of intervention under the snake, the UK's propensity to reinforce its reserves position was exposed even if the means were potentially conflictive with EEC countries. The overarching objective of the UK was not to be the transatlantic bridge in relations, but to achieve international monetary reform according its own interests backed by political power drawn from Anglo-American and Anglo-European relations. In this sense, Cromer's words can express the UK's foreign economic strategy of this period as to '…have our cake in Europe and to eat it in America.'[758]

[758] TNA, PREM15/1278, United States Annual Review for 1971, Cromer to Sir Alec Douglas-Home, Secretary of State for Foreign and Commonwealth Affairs, 5 January 1972.

Chapter 8: Conclusions

8.1 Interactions between monetary and fiscal policies in the late Bretton Woods system

There can be no doubt that the Bretton Woods system underpinned the post-World War II international economy. Its demise arose, it could be argued, from the ‘success’ of international economic reconstruction and from what has been called the ‘golden age’ of capitalism. While overall growth of the international economy was achieved, uneven growth amongst the Anglo-American, Western European and Japanese economies eroded the foundation of the post-World War II economic regime: principally, the confidence in the dollar, and, partially, sterling (which had its own, separate problems). For the UK and US, this unequal economic growth paved the way to international monetary ‘co-operation’ to defend the parities, and ‘competition’ to achieve as much as possible of the ‘ultimate’ reserve of the Bretton Woods system: gold. In the wake of the gold crisis and amid growing scepticism surrounding the dollar, various supranational financial safety nets were gradually consolidated in the early 1960s.

During the negotiation process of the establishment of the gold pool and Federal Reserve swap lines, Prime Minister Harold Macmillan sought to hold gold and restore the position of sterling to greater prestige, while endeavouring to avoid the risk of devaluation or depreciation of the dollar, which the UK held as a large part of its foreign reserves. However, these attempts faced significant backlash from both the UK Treasury and Bank of England.[759] Behind the decision to participate in the gold pool, Prime Minister Macmillan held reservations that the US side was keen to accumulate gold, and that the UK must not see significant depletion in its gold reserves.

Formation of and participation in the gold pool was intrinsically linked with fiscal policies and domestic political climates. The establishment of the gold pool was highly focussed on in the US political sphere due to the strife amongst the Federal Reserve, US Treasury and CEA in taking initiative over fiscal policies. The Federal Reserve and US Treasury faced the necessity to establish co-operative international monetary schemes to steer currency management and fiscal policies, circumventing Congressional influence. Thus, political strife of vying to take the reins of economic policies in the fields of domestic politics and international bargaining aggregated in the process of forming co-operative international monetary schemes. There is a clear distance between this argument and those which have been put forward by Schenk. In Schenk's account, the gold pool was held as a defining step in international monetary co-operation, forged in pursuit of a prosperous, stable economy.[760] It is detailed that at this stage, sterling was a source of bargaining power for the UK in establishment of the international monetary co-operative scheme. However, it is clear from analysis in chapter two of this thesis that the gold pool, a watershed scheme in international monetary co-operation, was established within complex political calculations and efforts to bypass domestic political conflicts over the reins of the co-ordination of fiscal and monetary policies.

[759] TNA, PREM11/4203, Prime Minister to the Chancellor: The Almighty Dollar, 22 May 1962, and TNA, PREM11/3302, Gold Exchange Standard: A danger to the West, 7 July 1962.
[760] Schenk, *The Decline of Sterling*, pp. 417-20.

It is also apparent that Anglo-American monetary relations depicted a very different facet of relations between the two countries when compared to the 'special' relationship which is usually considered by scholars and other commentators. The economic relations between the two states were structured by sobering and different political and economic realities confronting each country. Here, conflict over initiative in the context of international monetary schemes was partially mitigated or obscured by the political calculations of both governments; in this sense, the gold pool and swap lines were products of economic and political compromise. Recent research has depicted the gold pool, one of the notable examples of central bank co-operation of the era, as 'technical rather than political', without sufficient capability to absorb the shock that emanated from the 1967 devaluation, paving the way to its collapse.[761] However, from the analysis presented in chapter two of this thesis, it should be emphasised that behind the launching of the gold pool were political calculations with conflictive ambitions to hold gold, and struggles to take the reins of international monetary reform and domestic economic policies; in this sense political fissures were already embedded at the establishment of the gold pool. Although this thesis does not cover the end of gold pool, it prompts the question not of why the gold pool ended, but why the member countries and central banks were not keen politically to maintain it.

It is necessary to point out that the matter of monetary co-ordination also infiltrated into the field of diplomacy. A notable example in the 1960s was the issue of the UK's application for accession to the European Economic Community. At this stage, the EEC was discerned as one of the principle obstacles for the US in pursuit of its economic objectives. As David Ormsby-

[761] Bordo, Monnet and Naef, 'The Gold Pool (1961-1968)', p.50.

Gore, British Ambassador to Washington, suggested, the US sought successful British accession to the EEC, intending to exert influence on the economic policies of member countries of the EEC by way of the UK as a Trojan horse.[762] However, it is widely known that the UK's first application for accession to the EEC was thwarted by French President Charles de Gaulle, and further schemes for the management of currencies were explored in the international monetary field.[763]

While pressed to support the position of the dollar, the UK was also preoccupied with domestic economic policies and economic reform in order to manage its own currency. The Radcliffe Committee report had particular impact, at least academically, on the debate over monetary policy. This report included a similar concept to the liquidity preference theory originating in the work of Keynes, which *de facto* suggested the effects of mobilisation of interest rates policies through portfolio adjustment or rebalancing transactions. The proposed economic policies relating to this report represented an attempt to mobilise long-term interest rates in a similar manner to Operation Twist introduced in the US in the early 1960s. In the political sphere, through the direct and indirect manipulation of long-term interest rates, which resonated with the discussion in the Radcliffe Committee, Prime Minister Macmillan endeavoured to mitigate the burden of financing local authorities, to encourage mortgage finance during promotion of home ownership and deregulation of the private rental market, and

[762] John F. Kennedy Presidential Library, Lord Harlech Oral History Interview, 1965, p.51.

[763] Prime Minister Macmillan offered co-operation in the field of nuclear technology as a means of appeasement to France and attempted to propitiate de Gaulle to accept British accession to the EEC. However, the main concern of de Gaulle was the growing presence of the US within the EEC should the UK enter. Thus, de Gaulle is considered to have vetoed the application. See Ellison, *The United States, Britain and the Transatlantic Crisis*, Introduction.

to tackle the balance of payments deficit through the promotion of business investment and exports.

However, due to General Agreement on Tariffs and Trade rules on manipulation of interest rates through government-subsidised schemes, the initiative for the reformation of interest rates policies was gradually taken by the Bank of England. Consequently, the Bank's demand for the control of inflation and a sound gilt-edged market led to the collapse of Macmillan's proposal. It is apparent that paradoxically, Macmillan failed to pursue his favoured policy course due to the rules of international institutions, of which the UK was a proactive advocate. Moreover, the UK was unable to mobilise the change in interest rates structure to tackle the balance of payments deficit, because the government could not successfully exert control over the Bank of England and seize the reins of international schemes to manage currency. This led the UK to remain focused on selective credit controls, Bank Rate manipulation, and counter-cyclical fiscal measures oscillated along the level of the balance of payments deficit and unemployment. The UK therefore failed to break the fetters of the stop-go dichotomy in the context of monetary policy.

While multilateral international monetary schemes expanded, the UK and US entered a bitter phase in adjustment of their currencies. This conflict emerged unequivocally during negotiations over the change of short-term interest rates in early 1964. Prime Minister Sir Alec Douglas-Home and Chancellor of the Exchequer Reginald Maudling sought to increase the Bank Rate by 1 per cent in order to expand fiscal spending within the approaching fiscal budget. The UK government was keen to avoid the drain of its foreign reserves with the increase in fiscal spending. However, the US side held concerns that this increase in the UK Bank Rate would foster capital flight from the US, and thus would potentially cause damage to the value of and confidence in the dollar. The Johnson administration demanded that the UK not raise the Bank Rate, or if a raise were to occur it would need to contain the increase within 0.5 per cent. Concerns were also held amongst US officials that increase in the UK Bank Rate would affect US fiscal steering and direction through aggrandizing the political influence of 'hard currency men'.[764] It can be understood that there existed growing cleavage between the UK and the US, not only over defence of the balance of payments, but also surrounding the political strife of the implementation of preferred fiscal policies. Here, domestic issues ascended or were exported to the international political arena in order to mitigate internal political conflicts or achieve domestic political objectives. Therefore, the international management of currency was indeed an arena of co-operation and conflict, in which domestic interests, in particular the tug-of-war of power over fiscal policies, were reflected and arranged, providing certain political groups with the means to extract the political resources and power to self-enhance or debilitate the opposing group.

This dispute over the management of the currencies was inherited by Harold Wilson's succeeding Labour government, though it differed in quality from that under the Macmillan government. During the complex navigations of the monetary and political issues, both the UK and US administrations strengthened co-operative relations over not only exchange rates but also interest rates policies. Soon after becoming Prime Minister, Wilson sent a cable to Johnson declaring that the UK would adjust its short-term interest rates according to US

[764] TNA, PREM11/4772, Note for the Record, 27 February 1964. Despite the dispute between UK and US officials, the Douglas-Home government increased the Bank Rate by 1 per cent.

economic conditions so as to minimise impact on the US economy.[765] Differing to the battle to gain and hold gold during the Macmillan government, it is evident that management of sterling and the dollar under Wilson was gradually consolidated through collaboration between both governments, even though collaborative momentum vacillated within the political balance and economic condition.

While negotiating schemes for interest rates adjustment and safeguarding of the value of the currencies, the UK was hit by grievous speculation surrounding sterling in the autumn of 1964. The Bank played a significant role in securing a rescue package of $3,000 million of credit lines from sixteen central banks, and the UK government increased the Bank Rate from 5 to 7 per cent, then introducing the import surcharge.[766] The UK outrode the storm of the currency crisis with its fiscal measures and the international rescue package. However, this sterling crisis and international monetary support would overshadow and limit the succeeding fiscal policies of the Labour government.

The reform of tax measures under Wilson's Labour government has been appraised as formation of a 'socialist tax'.[767] The overall essence of this reform had ostensibly been pursuit of 'fairness' by closing tax loopholes and enhancing redistributive functions.[768] However, since the UK faced foreign pressure to promptly repeal the import surcharge and implement a deflationary budget, Labour's tax reform was gradually forced to deviate from its original proposal. In addition to foreign pressure, domestic politics also placed the Labour

[765] *Foreign Relations of the United States*, 1964-68, Vol. VII, Doc.233, Message from Prime Minister Wilson to President Johnson, November 19 1964.
[766] Regarding the link between the import surcharge and the management of sterling, see Roberts, 'Unwept, unhonoured and unsung', pp.209-29.
[767] Whiting, *The Labour Party and Taxation*, p.172.
[768] For the loopholes in taxation, see Kaldor Papers, NK3/19/294, Kaldor to D.G. Hartle, Royal Commission on Taxation, 26 October 1964.

government under strain.[769] The Bank highlighted the attitude of other central banks that strongly demanded the UK implement or reform fundamental measures in order to enhance the position of its foreign reserves. The Bank showed its recognition that in this situation, the central banks held 'the pistol at our head'.[770] Thus, it is evident that the Labour government faced a surge in demand to introduce schemes for managing currencies on both domestic and international fronts.

In the process of tax reform, Labour's 'socialist' tax proposal resulted in reduction of taxation on companies' profits, failed to close the loophole in long-term capital gains tax, and did not change the trend of shrinking the proportion of tax revenue from companies' profits. A notable backlash that the Labour government faced in this political process came from the Bank which voiced the concerns held in the international sphere and financial market, and of institutional investors that held vast gilt-edged securities. Wilson's government was confronted with the demand to maintain the attractiveness and prices of the gilt-edged securities and equities in order to protect the global reputation of the City and to achieve sound financial markets, without compelling the Bank to take such responsibilities, principally for the avoidance of fiscal finance by the Bank and ensuing detrimental effects on its independence.[771] Meanwhile, in the context of currency management, it should also be emphasised here that the

[769] TNA, T171/801, Record of discussion on 3 February 1965 between the Chancellor and Managing-Director of IMF.

[770] BoEA, G1/556, Conversation with Sir Denis Rickett, 29 January 1965.

[771] This friction between the government and financial markets invoked the signs of a fall in the prices of gilt-edged securities, in a similar situation to the emergence of the buyer's strike of 1976 under the IMF crisis. Burk and Cairncross, *Goodbye Great Britain*, p.52. The buyers' strike put pressure on worldwide financial intermediaries not to purchase or invest in UK gilt-edged securities. This is considered as one of the causes of the increase in the minimum lending rate from 9 to 11.5 per cent. It is evident that the City admonished the financial investors in New York not to purchase UK gilt-edged securities.

Labour government used corporation tax to promulgate in the international monetary field that the reform of taxation was an effective measure to tackle the balance of payments deficit, and to avoid pressure from abroad for deflationary fiscal policies. As Bale argued, the Labour government sought long-term strategic measures in order to deal with the balance of payments deficit, and from the analysis of this thesis there is no doubt that the tax reform contained complex domestic and international political objectives.[772]

Moreover, the reinvestigation of 1965 tax reform in this thesis can add a fresh perspective to the argument of Schenk who stressed that demands to manage the value of sterling forced the Labour government to introduce deflationary measures regardless of its ideology.[773] It is clear from analysis in chapters four and five of this thesis that Labour's tax objectives were not completely changed but adjusted, to a degree that would not be conflictive with the original ideas, in order to mobilise tax reform for mitigation of the external and internal pressure on the Labour government. Hence, it can be argued that economic strategy and ideology at least partially remained as intrinsic aspects of Labour's fiscal policy objectives and currency management. Furthermore, it will be summarised below, that when the tax reform of 1965 and the budget of 1968 are analysed together, it is evident that the Labour government prioritised defending its own budgetary policies subsuming its economic strategy and ideology, and used its own fiscal methods against the staggering confidence in sterling.

In sum, it is clear from the analysis of chapters four and five of this thesis that in the formation process of the corporation tax and capital gains tax, fiscal

---

[772] Bale, 'Dynamics of a Non-Decision', pp.192-217.
[773] Schenk, *The Decline of Sterling*, pp.157-85, 204-5.

policies reflecting tax ideology, monetary policies, currency management, and domestic and international financial sectors' interests were intrinsically intertwined and mutually influenced.

In the later 1960s, while tension surrounding the Vietnam War grew increasingly high, contributing to worldwide inflationary pressure, international management of the currencies entered into a new phase. Inflation and increase in US governmental spending jeopardised the position of the dollar. To alleviate this, in addition to the co-operative monetary schemes pursued during this period, the US government also took coercive measures as a means to encourage other governments to change the course of their policy. This was evident when the US urged the UK to send troops to Vietnam in exchange for support to defend the value of sterling. The US deemed this exchange beneficial for the reduction in US military spending. Although Prime Minister Wilson was keen to secure US financial support to bolster sterling, he also emphasised the necessity for reduction of UK government spending, especially overseas spending. This led Wilson and the UK Foreign Office to pursue secret diplomacy against the US government beyond the reach of President Johnson and the Counselor of the United States Department of State, Walt Rostow. This secret diplomacy, codenamed SUNFLOWER, aimed at mitigating the conflict in Vietnam in order to avoid the deployment of UK troops and loss of accessibility to US financial support arising from conflict over the military support.[774] However, despite the UK government's efforts, the Vietnam War raged on, inflation rates surged due to wartime economic boom, and the dollar became mired in speculation.

[774] Boyle, 'The Price of Peace', pp.37-72.

Meanwhile, the situation surrounding the UK balance of payments deficit deteriorated. In 1967, the outbreak of the Arab-Israeli Six Day War and escalation of industrial action, such as the dock strikes, accelerated rapid depletion of the foreign reserves and speculation around sterling intensified.[775] This was a significant blow for the Labour government, and so it took the decision to devalue sterling in November 1967.[776] Concomitantly, the Labour government was forced to present deflationary fiscal and monetary measures, however, the UK was unable to swiftly recuperate its trade deficits through J-curve effects.

In the immediate aftermath of the decision to devalue, the Labour government embarked on formation of the 1968 budget. During this process, conflictive requirements were presented. On one side, Chancellor of the Exchequer Roy Jenkins and the Bank sought drastic cuts in public expenditure and increases in taxation, including income tax, but mainly indirect tax. On the other side, Prime Minister Wilson, Michael Stewart, and to some extent James Callaghan, were keen to protect a budget consisting of decrease rather than increase in income tax, maintenance of the level of public expenditure, and a

[775] Cairncross, *Managing the British Economy*. Other measures taken in the summer of 1967, such as relaxation of hire purchase regulations, increased the rate of inflation and caused deterioration of the balance of payments through trade deficits caused by the worsening purchasing power parity. Also see Blackaby, 'Narrative, 1960-74', in Blackaby (ed.), *British Economic Policy*, p.40.
[776] Newton, 'The Sterling Devaluation of 1967', pp.912-45. Newton emphasised that the expanding Eurodollar market, which was regulated and controlled by states, caused a change in the balance of international power. He assessed that the determination of the UK government to devalue sterling was an adjustment to this change. For the emergence and the rapid expansion of the Eurodollar market, see Schenk, *The Decline of Sterling*. It is also outlined that the French government, under the influence of politicians such as de Gaulle, Prime Minister Georges Pompidou, and Minister of Foreign Affairs Maurice Couve de Murville, demanded the UK devalue sterling and dissolve the sterling balance as a prerequisite for accession to the EEC.

relatively less selective social security system than that sought by Jenkins.[777] In this negotiation process, both sides reached a compromise under which, in exchange for various cuts in public expenditure, income tax rates would undergo no change and *de facto* increase in the corporation tax rate would be limited. Amidst political conflict over budget making, the family allowances presented a divisive political battlefront. It can be argued that constraints or demands from domestic and international spheres, that had already been embedded in the budget to bolster devaluation, led to the family allowances, one of the symbolic 'universal' welfare aspects of the 1968 budget, becoming a somewhat more selective scheme. Meanwhile, external pressure narrowed Labour's potential policy course towards increases in both direct and indirect taxation, with reduction in public expenditure. Here, connections can be made between the reduction in public expenditure and the failure to reduce selectivity in exchange for protection of the rates of both income and corporation tax in order to make devaluation effective. In this sense, the change in the financing of family allowances in the 1968 budget resulted from complex interactions and political strife reflecting democratic or pluralistic social interests, an uneven institutional power balance, actors' ideas or ideology, currency management mindful of external pressure, and constraints arising from administrative feasibility.

Despite assurances by Prime Minister Wilson that the devaluation would not affect disposable income and purchasing power, accompanying measures and the 1968 budget triggered suppression of real wages. The increase in effective rates of taxation combined with the drastic reduction in public expenditure

[777] The TUC also backed maintaining or increasing public expenditure in the field of family allowances and supplementary benefits. For a more detailed account, see chapter 6 of this thesis.

enhanced deflationary pressure.[778] It has been highlighted in existing research that this became one of the contributing factors behind the resurgence of industrial action and its militancy.[779] Hence, although the delay to devaluation had obscured political conflicts over fiscal policies, a torrent of contradictions magnified by the devaluation were exposed in the political arena, and in the last instance, in wider social relations.

In the aftermath of devaluation, the succeeding gold crisis paved the way to the two-tier gold market, divided into official and private markets. This foreshadowed the collapse of the Bretton Woods system.[780] According to the account of Cairncross and Eichengreen, the failure to avoid devaluation of sterling caused de-legitimisation of the dollar and inevitably contributed to the demise of the Bretton Woods system.[781] On the US side, the civil-rights movement and anti-Vietnam War demonstrations intensified and confidence in the dollar became gradually more vulnerable with the increasing inflation.[782] In

---

[778] Blackaby, *British Economic Policy 1960-74*, p.45; and R. W. R. Price 'Public Expenditure' and 'Budgetary Policy', in Blackaby (ed.), *British Economic Policy 1960-74*, pp.108-9, 161.

[779] Colin Crouch, 'The Intensification of Industrial Conflict in the United Kingdom', in Colin Crouch and Alessandro Pizzorno (eds.), *The Resurgence of Class Conflict in Western Europe since 1968, Volume 1: National Studies* (Basingstoke: Palgrave Macmillan, 1978), pp.207-13. As Crouch suggested, there were various factors contributing to the intensification of industrial disputes and the 'wage explosion', which became prominent in 1969. These factors consisted of inflation caused by devaluation, mitigation of the incomes policy which provoked the demand for a rise in pay, the growing frustration and dissatisfaction over the series of tax increases and the reduction of disposable income caused by deflationary fiscal policies. See also Wilfred Beckerman, 'Objectives and performance: an overall view', in Wilfred Beckerman (ed.), *The Labour Government's Economic Record 1964-1970* (London: Duckworth, 1972), p.63.

[780] Bordo, Monnet and Naef, 'The Gold Pool (1961-1968)'. For the process of the establishment of the two-tier gold system and the UK economic strategies during the gold crisis of 1968, see Arran Hamilton, 'Beyond the Sterling Devaluation: The Gold Crisis of March 1968', *Contemporary European History*, Vol.17, No.1, 2008, pp.73-95.

[781] Cairncross and Eichengreen, *Sterling in Decline*, p.224.

[782] For a general account on the development of the political strife within and

the aftermath of the emergence of the two-tier gold price system, various measures were taken in order to sustain the Bretton Woods system.[783] Despite these efforts, international currency speculation did not dissipate. On 15 August 1971, US President Richard Nixon declared the closure of the US Treasury gold window, which *de facto* heralded the end of the Bretton Woods system. Although there is no conclusive evidence that the UK influenced this decision to close the gold window, the UK's demand for gold held by the US provided impetus behind Nixon's determination, at least in the eyes of CEA officials.

This event presenting the decline of US dollar hegemony provoked international monetary reform, influencing international relations. Immediately after the Nixon shock, between the US and UK there were numerous conflictive issues surrounding IMF reform, management of gold and the dollar as major foreign reserves components, and the setting of new parities. The UK's strategy was to avoid any further conflict with the US and the Six immediately before accession to the EEC. Hence, the UK conducted economic diplomacy over the issue of the new exchange parities in order to minimise potential burden on its economy and position within international politics arising from the revaluation and devaluation. Here, Japan was a useful target for revaluation as a means for reconciling the EEC and US to mitigate their diverged preferences for the new parities. After setting the new parities at the Smithsonian meeting in December 1971, the UK attempted to restore the Anglo-American relationship while approaching the EEC. The UK's ambiguous course was driven not by sentimental international relationships, but by meticulous political calculation, as

---

amongst the US government and Federal Reserve and its causal relations with surging inflation under the Nixon administration, see Allen J. Matusow, *Nixon's Economy: Booms, Busts, Dollars, and Votes* (Kansas: University Press of Kansas, 1998).

[783] These measures included the devaluation of the French franc, revaluation of the West German mark, and arrangement of a border tax in West Germany.

vividly seen in the process of joining ‘snake’. The ultimate objectives of the UK were to achieve maximum economic and political benefits for itself, and to push international monetary reform through and within the EEC, and the Anglo-American relationship.

By delineating the history of the international monetary and domestic fiscal and monetary policies under the late Bretton Woods system, it is apparent that these aspects, under the super-imposed political structures, were interconnected and mutually affected, fostering institutional change. It should be noted that the UK, under Macmillan, prioritised highly the holding of gold and inflow of short-term capital. In continuity from Alan Milward’s description of 1950s currency management, the Macmillan government sought to strengthen the sterling position.[784] Chapters two and three of this thesis have explored how the Macmillan government tried to achieve this objective through schemes of international monetary ‘co-operation’ and manipulation of the interest rates structure. In contrast, the Wilson government placed focus on manipulation of its fiscal policies to restore confidence in sterling, and to defend the quantity and quality of the budget with tax reform and delayed devaluation of sterling. However, dispute over debt management and the gilt-edged securities market, with external pressures, forced this tax reform to deviate from its original proposal. It is clear that currency management, fiscal and monetary policies and international politics were mutually influenced and affected UK economic policy outcomes.

Subsequently, the Labour government faced a bitterly negative experience at the point of devaluation, where the political conflicts, which had been previously obscured by the delay of devaluation, became graphically exposed.

[784] Milward, *The European Rescue of the Nation-State*, pp.367-95.

In this turmoil, Labour's policy objectives were again adjusted, which reflected in social security reform. Following the political and economic dysfunction of international and domestic economic management of the currencies, such as the demise of the gold pool, and the eventual collapse of the Bretton Woods system, the new political arena was set for international monetary reform. In the process of forming the new international monetary arrangements, the UK's economic strategy reflected in international relations, in which positions were manoeuvred so the UK could potentially maximise its economic and political benefits arising from Anglo-American and Anglo-Six relations.

8.2 Converging the historical findings into theories of international political economy and state theory

To conclude this chapter, comparison remains to be made of the history of the management of currencies, involving the co-ordination of fiscal and monetary policies under the late Bretton Woods system, and the application of theoretical frameworks of international political economy and state theory. As already seen in chapter one of this thesis, the main frameworks of international political economy and international relations can be categorised into realism, structural realism and the liberal international order. In this concluding chapter, attempts are made to investigate these three disciplines through historical perspectives.

The schema and assumptions of realism have presented a theory which sees the whole international system from the standpoint of the existence of an international equilibrium, with a presupposition of nation states as rational actors in pursuit of solely their own interests. With this assumption, realism has argued that nation states reach equilibrium and are incorporated into the system, subserviently or willingly, then hierarchy is set according to the disproportional and asymmetrical power distribution amongst nation states. Analysis describing nation states subordinately incorporating into the system or world order, under the presence or hegemonic direction of the US economy backed by the key currency, the dollar, cannot be denied. However, through analysis of the history of fiscal and monetary policies, the credence of this view is called into question. The staggering dollar as a key currency was bolstered at least ostensibly by harmonised international monetary co-operation, forged by governments and international monetary institutions, without fostering significant challenge against the dollar supremacy. Management of the dollar and sterling was perceived as a cumbersome issue, however, co-operation and various concessions to support the two reserve currencies were made as a *quid pro quo* for the *de facto* guarantee to maintain the international monetary system, in this case the Bretton Woods regime.

This historical interpretation might be recognised as reinforcing the arguments of structural realism. One of the salient distinctions of structural realism is in the hypothesis that nation states are spontaneously embedded and integrated into the international system in order to extract some form of benefit from the membership of institutions, which might sympathise with the Nash equilibrium in economic terms. However, it is difficult to apply this structural realism comprehensively to the post-war international political economy. To take the British case as an example, it has been shown in this thesis that the UK perceived co-operative and passive measures for defending sterling and the dollar as potentially erosive of its own field of fiscal policies, and to some extent the sterling position. Moreover, as existing research has already detailed, these measures to defend sterling led the UK down the path towards a controversial incomes policy, presented an obstacle for rejection of the deployment of troops in Vietnam, and hampered the UK's smooth accession to the EEC. While navigating the complex management of sterling and striving to defend the international monetary system, UK government officials faced difficulties in calculating their own and their counterparts' utility functions, due to the labyrinthine political process, international relations and institutional configuration.[785] In a paradoxical result arising from the political uncertainty, the decision to devalue sterling temporarily extricated the UK from the burden of maintaining the parity, however, as a consequence of the intensification of industrial action that emanated from the decrease in the real wage, the UK faced fresh issues of wage inflation and a poignant backlash from the trade unions. Thus excessive focus on the benefits gained from membership of international monetary systems does not provide comprehensive analysis of the period. If the schema of structural realism is applied, it is useful to focus on the interrelations of 'co-variable' 'domestic' and 'interdependence' sovereignties, referring to governmental ability to exert control in both domestic and international spheres. This framework might provide insight into the interrelations of domestic economic policies and the international sphere.

---

[785] Steinbruner took international relations from a cognitive and cybernetic point of view with nuclear and multilateral forces between the 1950s and 1960s as an example, and argued that the decision makers avoided an information overload and spontaneously limited their own capacity of information handling. Consequently, in the segmented decision-making process, the decision makers depended on empirically and historically accumulated knowledge, and institutional behaviours. See John D. Steinbruner, *The Cybernetic Theory of Decision: New Dimensions of Political Analysis* (Princeton: Princeton University Press, 1974). The influence of accumulated knowledge within organisational decision-making can be seen in the work of Oakeshott. His concept of 'deliberately learned' practical knowledge identified the collective behaviour of decision-making. See Michael Oakeshott, *Rationalism in Politics and Other Essays* (London: Methuen, 1962).

However, it should be noted that this framework does not possess explanatory means to describe mutual interactions between two sovereignties, because Krasner's original framework does not provide account of any dynamic processes of 'co-varying', rather his work saw the structure of sovereignties as static and trade-off relations. In contrast, this thesis emphasises the aspect of somewhat mutual reinforcement, or schemes used in order to create a favourable balance of these 'sovereignties'. It can be gleaned from analysis in this thesis that the UK and US attempted to extract a source from the international political arena for bolstering the ability to control foreign capital (international sovereignty), in order to enhance capability to conduct their own fiscal policies (domestic sovereignty). On the other hand, the UK attempted to reform taxation (domestic sovereignty) in order to indirectly control foreign capital, and to avoid the influence of the foreign sector (restoration of or increase in international sovereignty). It is clear that relations between sovereignties cannot be described in a solely static fashion. Therefore, this static structure of sovereignties should be revised with detailed historical research.

Further validation is required for the hypothesis of the theory of the liberal international order as driven by the benefits drawn from the international free market economy and membership of liberal international institutions based on a pluralistic, open-access democratic process. As detailed in chapter one of this thesis, this concept is in clear contrast with the argument of Rodrik, who delineated the trilemma composed of 'hyper-globalisation', independent national sovereignty and democracy.[786] The theory of the liberal international order

[786] This trilemma can be considered to present a reversal of Ruggie's argument that domestic economic policies to satisfy social needs co-existed with the liberal international market under 'embedded liberalism'. The trilemma leads to

potentially obscures the collision of domestic and international economic interests. As shown through exploration of the historical events investigated in this thesis, it is evident that the fiscal and monetary policies of the UK were redirected in their political course by the political process of the international management of currencies and the forces of the international market. Then, this obscured fissures within national sovereignty, however, these conflicts were eventually magnified in the wake of the malfunction of international monetary arrangements. In this sense, rather than focus on harmonisation, the analytical power of the liberal international order ought to also highlight the conflictive aspects within itself and the dynamic interactions between international and domestic political spheres.

These comparisons between history and the concepts of international political economy unavoidably lead to the question of how the late Bretton Woods system should be understood from the perspective of the management of currencies. Also, how does this understanding contribute to the theories of international political economy? This thesis can add to the perspectives that domestic economic policies are used for tackling international monetary issues, and that international aspects are a constraint on domestic politics and economic policies. An important aspect is that nation states, composed of multi-layered organisations in which diverse interests are internalised, conducted management of the currencies and capitalised on various schemes as a buffer to alleviate conflicts between and within domestic policies and international factors, and externalised or exported domestic political conflicts into the international political arena. In other words, the international political arena was a means through which to steer the domestic economy. Of course, other

re-interpretation of ‘embedded liberalism’ as a source of conflict in order to extend its analytical credence for the contemporary world.

aspects should also be noted, such as that domestic economic policies were driven in order to resolve international issues such as currency management, in the last instance for the benefit of the national economy. In this sense, external institutions or forces that act on the complex decision-making process within a state are not mere constraints, but are also a channel through which domestic political conflicts are mitigated, obscured or redirected. As seen in this thesis, not only fiscal and monetary but also diplomatic policies of the state were modified or regulated through negotiation of international monetary co-ordination, by institutions on the outside or ‘periphery’ of parliamentary democratic processes, such as supranational monetary organisations and the network of central banks, leading nation states to reach equilibrium, albeit it a precarious, temporary one.[787]

While internal and external conflicts were mitigated, obscured or redirected in the international political arena, domestic fiscal and monetary policies were somewhat driven for the mitigation of the currency issues and for the achievement of other objectives. However, in the reciprocal political process where these components met with international politics, the proposed or existing policies underwent change. Here, emphasis must also be placed on the qualitative mutual adjustment process of the domestic and international political arena in which political ideology and ideas affected policy outcomes. The arguments of this thesis are distanced from the concept of an interstate system composed of a set of rules through which any states’ sovereignty is constrained

787 The Bank had been nationalised under the Bank of England Act of 1946. However, it is broadly held that this nationalisation did not constrain the Bank’s autonomy and it did not become subordinate to the government or the Treasury. See David Kynaston, ‘The Bank of England and the Government’, in Richard Roberts and David Kynaston (eds.), *The Bank of England: Money, Power and Influence, 1694-1994* (Oxford: Clarendon Press, 1995), pp.29-30. See also John Fforde, *The Bank of England and Public Policy, 1941-1958* (Cambridge: Cambridge University Press, 1992), pp.4-30.

and secured.[788] Rather, focus should be placed upon the ceaseless spiraling process of mutual adjustments within domestic and international sovereignties, economic policies and politics.

The above leads to reconsideration of the political process and state theory. The question is how should the political process that emerged in the late Bretton Woods era be considered in order to deepen understanding of state theory? As seen in chapter one of this thesis, an aspect of state theory focusing on the political process emphasises the distribution of 'power', the effects of institutions, and the applicability of discerning the state as a web of social relations. It has been shown in the analysis of this thesis that incorporating the international aspect into state theory is of great importance. The international institutions providing the arena of transnational co-operation or competition not only operated in a mediation role to reach economic compromise and confine or determine the actors' interests, but also functioned as a source of 'power' for representatives to influence or change domestic economic policies. This is because the components of states' 'infrastructural power', if any, were managed in or mutually influenced by the international political field.[789] Moreover, it is evident that the international political arena, where states and actors could extract political power to self-enhance, provided a source for state autonomy and sovereignty, while somewhat influencing decision-making, institutional configuration, and policy outcomes. In this sense, states are somewhat characterised and shaped by their relations with other states. Here, governmental policy objectives and domestic economic interests were at least partially changed by its relations with other states. This presents a

[788] For explanation of the interstate system, see Immanuel Wallerstein, *Historical Capitalism with Capitalist Civilization* (London: Verso, 1995), pp.56-7.
[789] In this thesis focus is placed on money and taxation.

supplementary rather than an alternative view on state theory. For example, while Jessop identified states as a web of social relations, it is clear that in the late Bretton Woods era, international monetary relations and its politics also had great bearing on, and somewhat shaped the state through the provision of political resources and ideas, and sometimes via coercive power.

This account does not exclude the arguments of states as autonomous, self-enhancing organisms or a set of institutions. International politics such as in management of the currencies, distanced from the parliamentary democratic process, provided or thrust political power unevenly unto the states or their actors, which might be seen as a source of state autonomy. There is also no doubt that political ideas, objectives and policy feasibility were constrained by institutions. When politicians, civil servants or economists sought to infuse their own ideas into actual policies, the existing institutions sometimes accelerated, sometimes hampered these ideas within the political process. In the late Bretton Woods era, ideas for economic policies and state strategy were bound to and sometimes constrained by the international monetary regime to preserve its longevity. Here, heed must be paid to the political process, where the actors, reciprocally influenced by cross-national and multi-layered institutions, competed to extract sources of political bargaining power, then navigating control, compromise and surrender until the point of outcome.

In the context of the late Bretton Woods era, the international aspects, such as the management of currencies, obscured the domestic economic conflicts. As the buffer of schemes to alleviate conflicts between domestic policies and international factors became mired in dysfunction or malfunction, a fissure in international and domestic fabric came to the surface. As the international financial situation changed and the unifying political force of the arena of monetary harmonisation weakened, previously dormant conflicts reignited at domestic and international levels, leading to dynamic institutional and policy change.

This thesis has attempted to stress the significance of internalising the international monetary co-ordination and management of currencies, commonly conceived as an external factor. This thesis has also delineated the historical transition of and mutual interactions amongst currency management and fiscal and monetary policies, in contrast to existing research which has focused unevenly on these aspects.

8.3 Reflection on the current climate

The interrelations amongst domestic economic policies and international aspects explored in this thesis, which has focused on international 'co-operative' measures that buffered or drove conflicts in domestic politics, might provide a useful framework for analysis of the emergence of 'neo-liberal' states and the turbulent period after the 2008 Great Financial Crisis (GFC). In the wake of the GFC, central banks have extended their own schemes for 'non-conventional' monetary easing, such as Quantitative Easing, negative interest rates and various asset purchase programmes. This flood of liquidity has fostered a surge in asset prices, greater than the increase in real wages, leading to wealth inequality.[790] Low interest rates have also caused the balances of consumer

[790] Thomas Piketty, *Capital in the Twenty-First Century* (Cambridge: Harvard University Press, 2014), chapter 9. Piketty's analysis of the development of inequality mainly distinguished wealth held by the top percentile, and defined the class structure as such: upper class (top 1 per cent), middle class (from 2 to

finance and real estate mortgages to balloon significantly, returning to levels evident prior to the GFC.[791] This 'financialisation' has resulted in the phenomena of 'mountainous' private debt, and nurtured further global economic instability.

Meanwhile, divisive socio-political and domestic economic issues have taken the spotlight, where they were previously obscured by arrangement of national interests within supranational organisations and international co-operation, which have injected global liberalisation or marketisation into the domestic sphere. This dominant notion is based on market discipline and justified in the name of the 'Great Moderation'. With the rapid transformation of the 'Great

---

49 per cent) and low class (lower 50 per cent). Therefore, Piketty's analysis of inequality cannot be considered to cover national characteristics of inequality such as generational inequality, and inequality of capability as analysed by Sen. Amartya Sen, *Inequality Reexamined* (Cambridge: Harvard University Press, 1995). Piketty's work is also distanced from the maximin principle (benefits received by 'the least advanced') and equality of opportunity with equal basic liberties as analysed by Rawls. John Rawls, *A Theory of Justice* (Massachusetts: Harvard University Press, 1971), p.302. As detailed by Piketty, inequality refers to concentration in the capital holding structure and the surge in labour income of some.
For estimated distributional effects created by current non-conventional monetary easing, see Dietrich Domanski, Michela Scatigna and Anna Zabai, 'Wealth inequality and monetary policy', *BIS Quarterly Review*, March 2016, and Stephanie Kelton, 'The Failure of Austerity: Rethinking Fiscal Policy', in Michael Jacobs and Mariana Mazzucato (eds.), *Rethinking Capitalism: Economics and Policy for Sustainable and Inclusive Growth* (Oxford: Wiley-Blackwell, 2016), pp.28-46.

[791] Colin Crouch, 'Privatised Keynesianism: An Unacknowledged Policy Regime', *The British Journal of Politics & International Relations*, Vol.11, 2009, pp.382–99. Crouch argued that this debt is a by-product of privatisation of the governmental sector. This rising level of private debt, combined with the expansion of the financial sector is deemed the phenomena of 'financialisation', and one of the causes behind the austerity movement, by which governments face demand to manage sovereign debt so as not to ratchet up debt service costs. See Wolfgang Streeck, *Buying Time: The Delayed Crisis of Democratic Capitalism* (London: Verso, 2014); Wolfgang Streeck and Daniel Mertens, 'Public Finance and the Decline of State Capacity in Democratic Capitalism', in Armin Schäfer and Wolfgang Streeck (eds.), *Politics in the Age of Austerity* (Cambridge: Polity Press, 2013), chapter 2, pp.26-58. For financialisation, see Gerald A. Epstein, 'Introduction: Financialization and the World Economy', in Gerald A. Epstein (ed.), *Financialization and the World Economy* (Cheltenham: Edward Elgar, 2005) pp.3-16.

Moderation', concealed domestic conflicts have become magnified through inequality in distributed wealth and the rising level of debt combined with austerity and consolidated public finance, underpinned by a series of monetary easing schemes, significantly affecting society. Reminiscent of Eric Hoffer's classical analysis seven decades ago that the driving force of mass movement is the shift from discontent to self-renunciation, social cleavage arising from inequality has deepened further since the GFC.[792] This has incarnated into the strange espousal of economic nationalism favouring coercive trade protectionism, bilateralism, and isolationism accompanied by social and political change, and neoliberalism engaging in domestic free market policies. In this sense, a state of affairs is perceptible in which global financial crises are intricately intertwined with not only national fiscal and monetary policies but also social factors.[793]

Although further detailed, historical qualitative and quantitative research is essential, the approach taken in this thesis may provide a fresh perspective for analysing the current interconnection of overflowing financial markets triggered by deregulation since the 1970s, and fiscal and monetary policies which are on the cusp of change.

---

[792] Eric Hoffer, *The True Believer: Thoughts on the Nature of Mass Movements* (New York: Harper & Row, 1951).

[793] A notable example can be observed in the expanding housing finance market and household borrowing. The development of housing finance schemes has ushered households to incur historically unprecedented levels of debt. Jens Lunde and Christine Whitehead, 'Introduction: Milestones in European Housing Finance since 1989', in Jens Lunde and Christine Whitehead (eds.), *Milestones in European Housing Finance* (Chichester: John Wiley & Sons, Ltd., 2016), pp.1-14. This trend had begun in the 1960s, later having significant impact on tenure structures. Kemeny observed that this change in tenures influences a household's voting pattern, favoured political parties and policies, which would have an impact on housing markets. Jim Kemeny, 'Home ownership and privatization', *International Journal of Urban and Regional Research*, Vol.4, No.3, September 1980, pp.372-88.

Appendix A. Significant Individuals

Sir William Armstrong: Joint Permanent Secretary to the Treasury, 1962-68; Permanent Secretary, Civil Service Department, and Head of the Home Civil Service, 1968-74

Thomas Balogh: Economic Advisor to the Cabinet, 1964-67

Anthony Barber: Chancellor of the Exchequer, 1970-74

Sir Timothy Bligh: Principal Private Secretary to Harold Macmillan, 1959-63; Principal Private Secretary to Sir Alec Douglas-Home, 1963-64

Willy Brandt: Chancellor of Germany (West Germany), 1969-74

Sir Alec Cairncross: Head of the Government Economic Service, 1964-69

James Callaghan: Chancellor of the Exchequer, 1964-67;
Home Secretary, 1967-70

Sir Fred Catherwood: Chief Industrial Adviser to the Department of Economic Affairs, 1964-66; Director General of the National Economic Development Council, 1966-70

John Connally: United States Secretary of the Treasury, 1971-72

Charles Coombs: Senior Vice-President in Charge of Foreign Function, Federal Reserve Bank of New York, 1959-75

Earl of Cromer: Governor of the Bank of England, 1961-66;
British Ambassador to the United States, 1971-74

Douglas Dillon: United States Under Secretary of State, 1959-61;
United States Secretary of the Treasury, 1961-65

Sir Alec Douglas-Home: Secretary of State for Commonwealth Relations, 1955-1960; Secretary of State for Foreign Affairs, 1960-63;
Prime Minister, 1963-64; Secretary of State for Foreign and Commonwealth Affairs, 1970-74

Dwight D. Eisenhower: President of the United States, 1953-61

Frederick Erroll: President of the Board of Trade, 1961-63

Alfred Hayes: President of the Federal Reserve Bank of New York, 1956-75

Edward Heath: Prime Minister of the United Kingdom, 1970-74

Walter Heller: Chairman of the Council of Economic Advisers, 1961-64

Roy Jenkins: Minister for Aviation, 1965-67;
Chancellor of the Exchequer, 1967-70

Lyndon B. Johnson: Vice President of the United States, 1961-63; President of the United States, 1963-69

Nicholas Kaldor: Special Adviser to the Chancellor, 1964-68

Yusuke Kashiwagi: Special Adviser to the Minister of Finance, Japan, 1971-72

John F. Kennedy: President of the United States, 1961-63

Sir Frank Lee: Permanent Secretary, Board of Trade, 1951-59; Food, 1959-60; Joint Permanent Secretary to the Treasury, 1960-62

Selwyn Lloyd: Secretary of State for Foreign Affairs, 1955-60; Chancellor of the Exchequer, 1960-62; Lord Privy Seal Leader of the House of Commons, 1963-64

Sir Donald MacDougall: Chief Economic Adviser, 1969-73

Harold Macmillan: Prime Minister of the United Kingdom, 1957-63

Reginald Maudling: Paymaster General, 1957-59; President of the Board of Trade, 1959-61; Secretary of State for the Colonies, 1961-62; Chancellor of the Exchequer, 1962-64

William McChesney Martin: Chairman of the Board of Governors of the Federal Reserve System, 1951-1970

Paul McCracken: Chairman of the Council of Economic Advisers, 1969-71

Mikio Mizuta: Minister of Finance, Japan, 1971-72

Jeremy Morse: Executive Director, Bank of England, 1965-72

Alan D. Neale: Second Permanent Secretary to the Treasury, 1971-72

Robert Neild: Economic Adviser, Treasury, 1964-67

Richard Nixon: Vice President of the United States, 1953-61; President of the United States, 1969-74

Sir Leslie O'Brien: Governor of the Bank of England, 1966-73

Sir Thomas Padmore: Second Secretary, Treasury, 1952-62; Permanent Secretary, Ministry of Transport, 1962-68

Sir Maurice Parsons: Executive Director of the Bank Of England, 1957-66; Deputy Governor, 1966-70

Georges Pompidou: Prime Minister of France, 1962-68; President of the French Republic, 1969-74

Michael Posner: Economic Adviser, Treasury, 1967-70

Italo de Lisle Radice: Under Secretary, Home Finance Division, Treasury, 1961-86

Sir Denis Rickett: Second Secretary and Head of Overseas Finance Division, Treasury, 1966-68; Vice President, International Bank for Reconstruction and Development, 1968-74

Robert Roosa: United States Treasury Under Secretary for Monetary Affairs, 1961-64

Eisaku Sato: Prime Minister of Japan, 1964-72

Karl Schiller: Minister of Economic Affairs, Germany (West Germany), 1966-72; Finance Minister, Germany (West Germany), 1971-72

Pierre-Paul Schweitzer: Managing Director of the IMF, 1963-73

Christopher Soames: British Ambassador to France, 1968-72

Robert Solomon: Advisor to the Board of Governors, Federal Reserve System, 1965-75; Director of the Division of International Finance, 1966-72

Allan Sproul: President of the Federal Reserve Bank of New York, 1941-56

John Stevens: Executive Director of the Bank Of England, 1957-64

Michael Stewart: Minister for Education, 1964-65; Foreign Secretary, 1965-66, 1968-70; First Secretary of State, 1966-68; Minister for Foreign Affairs, 1966-67

Michael Stewart: Economic Assistant, Cabinet Office, 1964-67

Sir Burke Trend: Cabinet Secretary, 1964-70

Paul A. Volcker: Under Secretary of the Treasury for Monetary Affairs, 1969-74

Pierre Werner: Prime Minister of Luxembourg, 1959-74

Sir Alan Whittome: Bank of England, 1951-64 (Chief Cashier 1962-64); Director, European Department, IMF, 1964-81

Harold Wilson: Prime Minister of the United Kingdom, 1964-70

Bibliography

A. Archival Sources

The National Archives, Public Record Office, Kew

BT213: Board of Trade: Commodity and General Division and successors: Registered Files

CAB128: Cabinet: Minutes

CAB164: Cabinet Office: Subject (Theme Series) Files

FCO59: Foreign Office: Economic Relations Department and Foreign and Commonwealth Office, Financial Policy and Aid Department and Financial Policy Department: Registered Files

PREM11: Prime Minister's Office: Correspondence and Papers, 1951-1964

PREM13: Prime Minister's Office: Correspondence and Papers, 1964-1970

PREM15: Prime Minister's Office: Correspondence and Papers, 1970-1974

T171: Chancellor of the Exchequer's Office: Budget and Finance Bill Papers

T227: Treasury: Social Services Division

T312: Treasury: Finance Overseas and Co-ordination Division

T326: Treasury: Finance, Home and General Division

T331: Treasury: General Expenditure Division

T354: Treasury: Overseas Finance Group: Finance (International Monetary) Division

Bank of England Archives, Threadneedle Street, London

6A103: EUROPEAN ECONOMIC COMMUNITY - NARROW MARGINS

6A319: CHIEF CASHIER'S POLICY FILES: TAXATION

11A45: EXCHANGE CONTROL: SECURITIES - MOBILISATION OF PRIVATE PORTFOLIO HOLDINGS

ADM13: PAPERS OF SIR MAURICE HENRY PARSONS

C40: CASHIER'S DEPARTMENT: CHIEF CASHIER'S POLICY FILES

C42: CASHIER'S DEPARTMENT: CHIEF CASHIERS' PERSONAL FILES

C43: CASHIER'S DEPARTMENT: GOLD AND FOREIGN EXCHANGE FILES

G1: GOVERNOR'S FILES

G41: PAPERS OF LESLIE O'BRIEN

OV31: OVERSEAS DEPARTMENT: UNITED STATES

Private Papers

Kaldor, Nicholas, King’s College, Cambridge

Published Sources

Command Papers (HMSO), various numbers

Foreign Relations of the United States, 1969-1976, Vol.III, Foreign Economic Policy; International Monetary Policy, 1969-1972

Foreign Relations of the United States, 1964-1968, Vol.XII, Western Europe

IMF, Annual Report, various numbers

Federal Reserve Bulletins, various numbers

John F. Kennedy Presidential Library, Oral History Interview

Hansard, House of Commons Debates, various volumes

House of Commons, various reports

B. Secondary Works

Acharya, Amitav, *The End of American World Order* (Cambridge: Polity Press, 2014).

Addison, Paul, *The Road to 1945: British Politics and the Second World War* (London: Cox and Wyman, 1975).

Ahearn, Daniel S., *Federal Reserve Policy Reappraised, 1951-1959* (New York: Columbia University Press, 1963).

Akerlof, G. A., *An Economic Theorist's Book of Tales* (Cambridge: Cambridge University Press, 1984).

Althusser, Louis, 'Ideology and Ideological State Apparatuses (Notes towards an investigation)', in Louis Althusser, *Lenin and Philosophy and Other Essays*, translated by Ben Brewster (London: New Left Books, 1971), pp.121-73.

Anderson, Benedict, *Imagined Communities: Reflections on the Origin and Spread of Nationalism* (London: Verso, 1983).

Aoki, Masahiko, 'The Japanese Firm as a System of Attributes: A Survey and Research Agenda', in Masahiko Aoki and Ronald Dore (eds.), *The Japanese Firm: Sources of Competitive Strength* (Oxford: Clarendon Press, 1994), pp. 11-40.

Ashton, Nigel J., *Kennedy, Macmillan and the Cold War: The Irony of Interdependence* (Basingstoke: Palgrave Macmillan, 2002).

Atkinson, A. B., 'Inequality and Social Security', in Peter Townsend and Nicholas Bosanquet (eds.), *Labour and Inequality* (London: Fabian Society, 1972), pp.12-25.

Bacon, Robert and Eltis, Walter, *Britain's Economic Problem: Too Few Producers* (Basingstoke: Macmillan, 1976).

Bagehot, Walter, *Lombard Street: A Description of the Money Market* (Connecticut: Hyperion Press, 1964), originally published 1873.

Bale, Tim, 'Dynamics of a Non-Decision: the 'Failure' to Devalue the Pound, 1964-7', *Twentieth Century British History*, Vol.10, No.2, 1999, pp.192-217.

Ball, Stuart and Seldon, Anthony (eds.), *The Heath Government 1970-1974: A Reappraisal* (Abingdon: Routledge, 2013), originally published 1996.

Bank of England, *The Development and Operation of Monetary Policy 1960-1983* (Oxford: Oxford University Press, 1984).

Bank of England, *The Distributional Effects of Asset Purchases,* 2012.

Barro, Robert J., 'Are Government Bonds Net Wealth?' *Journal of Political Economy*, Vol.86, No.6, 1974, pp.1095-117.

Baston, Lewis, *Reggie: The Life of Reginald Maudling* (Stroud: Sutton Publishing Limited, 2004).

Baudrillard, Jean, *The Consumer Society: Myth and Structures* (London: Sage Publications Ltd., 1998), originally published 1970.

Beckerman, Wilfred, 'Objectives and performance: an overall view', in Wilfred Beckerman (ed.), *The Labour Government's Economic Record 1964-1970* (London: Duckworth, 1972), pp.29-74.

Beckhart, Benjamin H., *Federal Reserve System* (New York: American Institute of Banking, 1972).

Bell, Daniel, *The Cultural Contradictions of Capitalism* (New York: Basic Books Inc. Publishers, 1978).

Bellamy Foster, John and Magdoff, Fred, *The Great Financial Crisis: Causes and Consequences* (New York: Monthly Review Press, 2009).

Bentham, Jeremy, *An Introduction to the Principles of Morals and Legislation* (New York: Dover Publications Inc., 1996), originally published 1789.

Bentley, Arthur F., *The Process of Government: A Study of Social Pressures* (Chicago: University of Chicago Press, 1908).

Berger, Suzanne, 'Introduction' in Suzanne Berger (ed.), *Organizing interests in Western Europe: Pluralism, corporatism, and the transformation of politics* (Cambridge: Cambridge University Press, 1981), pp.1-23.

Bergsten, C. Fred, The *Dilemmas of the Dollar: The Economics and Politics of United States International Monetary Policy* (New York: New York University Press, 1975).

Beschloss, Michael R. (ed.), *Taking Charge: The Johnson White House Tapes, 1963-1964* (New York: Simon & Schuster, 1997).

Beschloss, Michael R. (ed.), *Reaching For Glory: Lyndon Johnson's Secret White House Tapes, 1964-1965* (New York: Simon & Schuster, 2002).

Blackaby, F. T., 'Narrative, 1960-74', in F. T. Blackaby (ed.), *British Economic Policy 1960-74: Demand Management*, *NIESR Students' Edition* (Cambridge: Cambridge University Press, 1979), pp.11-76.

Blank, Stephen, 'Britain: The Politics of Foreign Economic Policy, the Domestic Economy, and the Problem of Pluralistic Stagnation', in Peter J. Katzenstein (ed.), *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States* (Madison: The University of Wisconsin Press, 1978), pp.89-137.

Blick, Andrew, 'Harold Wilson, Labour and the Machinery of Government', in Glen O'Hara and Helen Parr (eds.), *The Wilson Governments 1964-1970 Reconsidered* (London: Routledge, 2006), pp.40-59.

Block, Fred L., *The Origins of International Economic Disorder, A Study of United States International Monetary Policy from World War II to the Present* (London: University of California Press, 1977).

Block, Fred L., *Revising State Theory: Essays in Politics and Postindustrialism* (Philadelphia: Temple University Press, 1987).

Bordo, Michael D., 'The Bretton Woods International Monetary System: A Historical Overview', in Michael D. Bordo and Barry Eichengreen (eds.), *A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform* (Chicago: The University of Chicago Press, 1993), pp.3-108.

Bordo, Michael D. and Eichengreen, Barry (eds.), *A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform* (Chicago: The University of Chicago Press, 1993).

Bordo, Michael D., Humpage, Owen F. and Schwartz, Anna J., *Strained Relations: US Foreign-Exchange Operations and Monetary Policy in the Twentieth Century* (Chicago: The University of Chicago Press, 2015).

Bordo, Michael D., Humpage, Owen F. and Schwartz, Anna J., 'The Evolution of the Federal Reserve Swap Lines since 1962', *IMF Economic Review*,Vol.63, No.2, 2015, p.356-72.

Bordo, Michael D., MacDonald, Ronald and Oliver, Michael J., 'Sterling in Crisis, 1964-1967', *European Review of Economic History*, Vol.13, 2009, pp.437-59.

Bordo, Michael D., Monnet, Eric and Naef, Alain, 'The Gold Pool (1961-1968) and the Fall of the Bretton Woods System: Lessons for Central Bank Cooperation', *NBER Working Paper*, No. 24016, November 2017.

Borio, Claudio and Zabai, Anna, 'Unconventional monetary policies: a re-appraisal', *BIS Working Papers*, No.570, July 2016.

Bourdieu, Pierre, *Distinction: A Social Critique of the Judgement of Taste* (London: Routledge & Kegan Paul, 1984).

Bowles, Samuel and Gintis, Herbert, *A Cooperative Species: Human Reciprocity and its Evolution* (Princeton: Princeton University Press, 2011).

Boyle, Kevin, 'The Price of Peace: Vietnam, the Pound, and the Crisis of the American Empire', *Diplomatic History*, Vol. 27, No.1, 2003, pp.37-72.

Brandon, Henry, *In the Red: The Struggle for Sterling 1964–1966* (London: Andre Deutsch, 1966).

Brewer, John, *The Sinews of Power: War, Money and the English State, 1688-1783* (London: Unwin Hyman, 1989).

Brittan, Samuel, *Steering the Economy: The Role of the Treasury* (London: Secker & Warburg, 1969).

Browning, Peter, *The Treasury and Economic Policy, 1964-1985* (New York: Longman, 1986).

Brownlee, W. Elliot (ed.), *Funding the Modern American State, 1941-1995: The rise and fall of the era of easy finance* (New York: Cambridge University Press, 1996).

Brummer, Justin A., Anglo-American relations and the EC enlargement, 1969-1974 (unpublished PhD thesis, University College London, 2012).

Brunner, Karl and Meltzer, Allan H., 'Money and Credit in the Monetary Transmission Process', *The American Economic Review*, Vol.78, No.2, 1988, pp.446-51.

Brunner, Karl and Meltzer, Allan H., *Money and the Economy: Issues in Monetary Analysis* (Cambridge: Cambridge University Press, 1993).

Buchanan, James M., *Public Finance in Democratic Process: Fiscal Institutions and Individual Choice* (Chapel Hill: University of North Carolina Press, 1967).

Buchanan, James M., 'Barro on the Ricardian Equivalence Theorem', *Journal of Political Economy*, Vol.84, No.2, 1976, pp.337-42.

Buchanan, James M. and Tullok, Gordon, *The Collected Works of James M. Buchanan Volume 3, The Calculus of Consent: Logical Foundations of Constitutional Democracy* (Indianapolis: Liberty Fund, 1999), originally published 1962.

Bull, Hedley, *The Anarchical Society: A Study of Order in World Politics, Fourth Edition* (Basingstoke: Palgrave Macmillan, 2012), originally published 1977.

Burk, Kathleen and Cairncross, Alec, *Goodbye Great Britain: The 1976 IMF Crisis* (New Haven: Yale University Press, 1992).

Butler, David and Rose, Richard, *The British General Election of 1959* (London: Macmillan, 1969).

Cain, P. J. and Hopkins, A. G., *British Imperialism: Crisis and Deconstruction 1914-1990* (London: Longman, 1993).

Cain, P. J. and Hopkins, A. G., *British Imperialism: Innovation and Expansion 1688-1914* (London: Longman, 1993).

Cairncross, Alec, *The British Economy since 1945: Economic Policy and Performance, 1945-1995*, *Second Edition* (Oxford: Blackwell, 1995).

Cairncross, Alec, *Managing the British Economy in the 1960s: A Treasury Perspective* (Basingstoke: Macmillan, 1996).

Cairncross, Alec, *The Wilson Years: A Treasury Diary, 1964-1969* (London: The Historian's Press, 1997).

Cairncross, Alec and Eichengreen, Barry, *Sterling in Decline: The Devaluations of 1931, 1949 and 1967* (Oxford: Basil Blackwell, 1983).

Callaghan, James, *Time and Chance* (London: Collins, 1987).

Campbell, John, *Roy Jenkins: A Well-Rounded Life* (London: Jonathan Cape, 2014).

Campbell, John L. and Pedersen, Ove K. (eds.), *The Rise of Neoliberalism and Institutional Analysis* (Princeton: Princeton University Press, 2001).

Catterall, Peter, *The Macmillan Diaries Vol. II: Prime Minister and After, 1957-66* (Basingstoke: Macmillan, 2011).

Capie, Forrest, *The Bank of England 1950s to 1979* (Cambridge: Cambridge University Press, 2010).

Castles, Francis G., 'The Really Big Trade-off: Home Ownership and the Welfare State in the New World and the Old', *Acta Politica*, Vol.33, No.1, 1998, pp.5-19.

Cerny, Philip G., 'Capturing Benefits, Avoiding Losses: the United States, Japan and the Politics of Constraint', in Susanne Soederberg, Georg Menz, and Philip G. Cerny (eds.), *Internalizing Globalization: The Rise of Neoliberalism and the Decline of National Varieties of Capitalism* (Basingstoke: Palgrave Macmillan, 2005), pp. 123-48.

Cerny, Philip G., Menz, Georg and Soederberg, Susanne, ‘Different Roads to Globalization: Neoliberalism, the Competition State, and Politics in a More Open World’, in Susanne Soederberg, Georg Menz, and Philip G. Cerny (eds.), *Internalizing Globalization: The Rise of Neoliberalism and the Decline of National Varieties of Capitalism* (Basingstoke: Palgrave Macmillan, 2005), pp.1-30.

Cohen, Benjamin J., *Organizing the World’s Money: The Political Economy of International Monetary Relations* (New York: Basic Books, 1977).

Commons, J. R., *Legal Foundations of Capitalism* (New York: Macmillan, 1924).

Commons, J. R., *Institutional Economics: Its Place in Political Economy* (Madison: University of Wisconsin Press, 1934).

Coombs, Charles A., *The Arena of International Finance* (New York: John Wiley & Sons, 1976).

Cooper, Richard N., *The International Monetary System: Essays in World Economics* (Massachusetts: The MIT Press, 1987).

Cottrell, P. L., ‘The Bank of England in its International Setting, 1918-1972’, in Richard Roberts and David Kynaston (eds.), *The Bank of England: Money, Power and Influence, 1694-1994* (Oxford: Clarendon Press, 1995), pp.83-139.

Crafts, N. F. R., ‘The golden age of economic growth in Western Europe, 1950-1973’, *The Economic History Review*, Vol.48 , No.3, 1995, pp. 429-47.

Crafts, N. F. R. and Woodward, Nicholas (eds.), *The British Economy Since 1945* (Oxford: Clarendon Press, 1991).

Crouch, Colin, ‘The Intensification of Industrial Conflict in the United Kingdom’, in Colin Crouch and Alessandro Pizzorno (eds.), *The Resurgence of Class Conflict in Western Europe since 1968, Volume 1: National Studies* (Basingstoke: Palgrave Macmillan, 1978), pp. 191-256.

Crouch, Colin, ‘Privatised Keynesianism: An Unacknowledged Policy Regime’, *The British Journal of Politics & International Relations*, Vol.11, 2009, pp.382–99.

Crouch, Colin, *The Strange Non-death of Neoliberalism* (Cambridge: Polity Press, 2011).

Cukierman, Alex, *Central Bank Strategy, Credibility, and Independence: Theory and Evidence* (Massachusetts: The MIT Press, 1992).

Cukierman, Alex, Webb, Steven B. and Neyapti, Bilin, ‘Measuring the Independence of Central Banks and Its Effect on Policy Outcomes’, *The World Bank Economic Review*, Vol.6, No.3, September 1992, pp.353-98.

Dahl, Robert A., ‘The concept of power’, *Behavioral Science*, Vol.2, No.3, 1957 pp.201-15.

Darwin, John, *Britain And Decolonisation: The Retreat From Empire in the Post-War World* (Basingstoke: Palgrave Macmillan, 1988).

Daunton, Martin J., *A Property Owning Democracy? Housing in Britain* (London: Faber and Faber, 1987).

Daunton, Martin, *Just Taxes: The Politics of Taxation in Britain, 1914-1979* (Cambridge: Cambridge University Press, 2002).

Daunton, Martin, ‘The politics of British taxation, from the Glorious Revolution to the Great War’, in Bartolomé Yun-Casalilla, Patrick K. O’Brien and Francisco Comín Comín (eds.), *The Rise of Fiscal States: A Global History 1500-1914* (Cambridge: Cambridge University Press, 2012), pp.111-42.

Davidson, Paul, ‘What are the Essential Elements of Post Keynesian Monetary Theory?’, in Ghislain Deleplace and Esward J. Nell (eds.), *Money in Motion: The Post-Keynesian and Circulation Approaches* (Basingstoke: Palgrave Macmillan, 1996), pp.48-69.

Davidson, Paul, *Post Keynesian Theory and Policy: A Realistic Analysis of the Market Oriented Capitalist Economy* (Massachusetts: Edward Elgar, 2015).

Davies, Aled, *The City of London and Social Democracy: The Political Economy of Finance in Britain, 1959-1979* (Oxford: Oxford University Press, 2017).

Davies, William, *The Limits of Neoliberalism: Authority, Sovereignty and the Logic of Competition, Revised Edition* (London: SAGE Publications Ltd, 2016).

Davis, William, *Three Years Hard Labour: The Road to Devaluation* (London: Andre Deutsch, 1968).

Dawkins, Richard, *The Selfish Gene* (Oxford: Oxford University Press, 1976).

Debelle, Guy and Fischer, Stanley, 'How Independent Should a Central Bank be?' in Jeffrey C. Fuhrer (ed.), *Goals, Guidelines, and Constraints Facing Monetary Policymakers* (Massachusetts: Federal Reserve Bank of Boston, 1994), pp.195-221.

De Vries, Margaret Garritsen, *The IMF in a Changing World, 1945-85* (Washington DC: International Monetary Fund, 1986).

Dimsdale, N. H., 'British Monetary Policy since 1945', in N. F. R. Crafts and Nicholas Woodward (eds.), *The British Economy Since 1945* (Oxford: Clarendon Press, 1991), pp. 89-140.

Dobson, Alan P., *The Politics of the Anglo-American Economic Special Relationship, 1940-1987* (Brighton: Wheatsheaf Books, 1988).

Dobson, Alan P., *Anglo-American Relations in the Twentieth Century: of friendship, conflict and the rise and decline of superpowers* (Abingdon: Routledge, 1995).

Dobson, Alan P., and Marsh, Steve, 'Introduction', in Alan P. Dobson and Steve Marsh (eds.), *Anglo-American Relations: Contemporary Perspectives* (London: Routledge, 2013), pp.1-25.

Dockrill, Michael L., *The Cold War 1945-1963* (Basingstoke: Macmillan, 1988).

Domanski, Dietrich, Scatigna, Michela and Zabai, Anna, ‘Wealth inequality and monetary policy’, *BIS Quarterly Review*, March 2016.

Dooley, Michael P., Folkerts-Landau, David and Garber, Peter M., ‘The Revived Bretton Woods System: The Effects of Periphery Intervention and Reserve Management on Interest Rates and Exchange Rates in Center Countries’, *NBER Working Paper*, No. 10332, March 2004.

Dooley, Michael P., Folkerts-Landau, David and Garber, Peter M., ‘Bretton Woods II Still Defines The International Monetary System’, *NBER Working Paper*, No. 14731, February 2009.

Dumbrell, John, ‘The Johnson Administration and the British Labour Government: Vietnam, the Pound and East of Suez’, *Journal of American Studies*, Vol.30, No.2, 1996, pp.211-231.

Dumbrell, John, *A Special Relationship: Anglo-American Relations in the Cold War and After* (Basingstoke: Macmillan, 2001).

Dumbrell, John, ‘Personal diplomacy: Relations between prime ministers and presidents’, in Alan P. Dobson and Steve Marsh (eds.), *Anglo-American Relations: Contemporary Perspectives* (London: Routledge, 2013), pp.82-104.

Duménil, Gérald and Lévy, Dominique, *Capital Resurgent: Roots of the Neoliberal Revolution* (Massachusetts: Harvard University Press, 2004).

Durkheim, Emile, *The Division of Labour in Society* (London: Macmillan, 1984), originally published 1893.

Dymski, Gary A., Epstein, Gerald and Pollin, Robert (eds.), *Transforming the U.S. Financial System: Equity and Efficiency for the 21st Century* (New York: M.E. Sharpe, 1993).

Easton, David, *The Political System: An Inquiry into the State of Political Science* (New York: Alfred A. Knopf, 1953).

Easton, David, ‘An Approach to the Analysis of Political Systems’, *World Politics*, Vol.9, No.3, 1957, pp.383-400.

Edgerton, David, ‘Liberal Militarism and the British State’, *New Left Review*, Vol.185, 1991, pp.138-69.

Eichengreen, Barry, ‘Three generations of crises, three generations of crisis models’, *Journal of International Money and Finance*, Vol. 22, 2003, pp.1089-94.

Eichengreen, Barry, *Globalizing Capital: A History of the International Monetary System, Second Edition* (Princeton: Princeton University Press, 2008).

Ellison, James, *Threatening Europe: Britain and the Creation of the European Community, 1955-58* (Basingstoke: Macmillan, 2000).

Ellison, James, *The United States, Britain and the Transatlantic Crisis: Rising to the Gaullist Challenge, 1963-68* (Basingstoke: Palgrave Macmillan, 2007).

Epstein, Gerald A., ‘Introduction: Financialization and the World Economy’, in Gerald A. Epstein (ed.), *Financialization and the World Economy* (Cheltenham: Edward Elgar, 2005), pp.3-16.

Esping-Andersen, Gøsta, *The Three Worlds of Welfare Capitalism* (Cambridge: Polity Press, 1990).

Fforde, John, *The Bank of England and Public Policy, 1941-1958* (Cambridge: Cambridge University Press, 1992).

Finer, S. E., ‘Adversary Politics and Electoral Reform’, in S. E. Finer (ed.), *Adversary Politics and Electoral Reform: Collected Essays* (London: Wigram, 1975), pp.3-34.

Frieden, Jeffry and Martin, Lisa L., ‘International Political Economy: Global and Domestic Interactions’, in Ira Katznelson and Helen V. Milner (eds.), *Political Science: The State of the Discipline* (New York: W. W Norton & Company, 2002), pp.118-46.

Friedman, Milton, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962).

Friedman, Milton and Schwartz, Anna J., *A monetary History of the United States 1867-1960* (Princeton: Princeton University Press, 1963).

Fudenberg, Drew and Maskin, Eric, ‘The Folk Theorem in Repeated Games with Discounting or with Incomplete Information’, *Econometrica*, Vol. 54, No.3, 1986, pp. 533-54.

Gamble, Andrew, *The Free Economy and the Strong State: The Politics of Thatcherism* (Basingstoke: Macmillan, 1988).

Gamble, Andrew, *The Spectre at the Feast: Capitalist Crisis and the Politics of Recession* (Basingstoke: Palgrave Macmillan, 2009).

Gamble, Andrew, ‘Europe and America’, in Ben Jackson and Robert Saunders (eds.), *Making Thatcher’s Britain* (Cambridge: Cambridge University Press, 2012), pp. 218-33.

Gardner, Richard N., *Sterling-Dollar Diplomacy in Current Perspective, The Origins and the Prospects of Our International Economic Order* (New York: Columbia University Press, 1980).

Gavin, Francis J., *Gold, Dollars, and Power, The Politics of International Monetary Relations, 1958-1971* (Chapel Hill: The University of North Carolina Press, 2004).

Gellner, Ernest, *Nations and Nationalism* (Oxford: Basil Blackwell, 1983).

Genschel, Philipp and Schwarz, Peter, ‘Tax Competition and Fiscal Democracy’, in Armin Schäfer and Wolfgang Streeck (eds.), *Politics in the Age of Austerity* (Cambridge: Polity, 2013), pp.59-83.

George, Stephen, *An Awkward Partner: Britain in the European Community, Third Edition* (New York: Oxford University Press, 1998).

Gilpin, Robert, *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987).

Glyn, Andrew and Wood, Stewart, ‘Economic Policy under New Labour: How Social Democratic is the Blair Government?’ *The Political Quarterly*, Vol. 72, No.1, 2001, pp. 50-66.

Goldthorpe, John H., ‘The Current Inflation: Towards a Sociological Account’, in Fred Hirsch and John H. Goldthorpe (eds.), *The Political Economy of Inflation* (London: Martin Robertson & Co, Ltd., 1978), pp.186-214.

Goldthorpe, John H., Lockwood, David, Bechhofer, Frank and Platt, Jenifer, *The affluent worker in the class structure* (Cambridge: Cambridge University Press, 1969).

Goodhart, Charles. A. E., 'Monetary policy in the United Kingdom', in Karel Holbik (ed.), *Monetary Policy in Twelve Industrial Countries* (Boston: Federal Reserve Bank of Boston, 1973), pp.465-524.

Goodhart, Charles. A. E., 'The two concepts of money: implications for the analysis of optimal currency areas', *European Journal of Political Economy*, Vol.14, 1998, pp.407-32.

Gough, Ian, *The Political Economy of the Welfare State: Critical Texts in Social Work and the Welfare State* (Basingstoke: Macmillan, 1979).

Gowa, Joanne, *Closing the Gold Window: Domestic Politics and the End of Bretton Woods* (London: Cornell University Press, 1983).

Gramsci, Antonio, *Selections from the Prison Notebooks of Antonio Gramsci* (London: Lawrence & Wishart, 1971).

Greif, Avner, *Institutions and the Path to the Modern Economy: Lessons from Medieval Trade* (Cambridge: Cambridge University Press, 2006).

Greif, Avner and Mokyr, Joel, 'Institutions and economic history: a critique of Professor McCloskey', *Journal of Institutional Economics*, Vol.12, No.1, 2016, pp.29-41.

Gurley, John G., 'The Radcliffe Report and Evidence', *The American Economic Review*, Vol. 50, No. 4, September 1960, pp. 672-700.

Haberler, Gottfried, *Prosperity and Depression: A Theoretical Analysis of Cyclical Movements*, *Third Edition* (New York: United Nations, 1946), originally published 1937.

Haberler, Gottfried, 'Appendix: Taxes on Imports and Subsidies on Exports as a Tool of Adjustment', in Robert A. Mundell, and Alexander K. Swoboda (eds.), *Monetary Problems of the International Economy* (Chicago: The University of Chicago Press, 1969), pp.173-9.

Habermas, Jürgen, *Legitimation Crisis* (Boston: Beacon Press, 1975).

Hall, John A. (ed.), *States in History* (Oxford: Basil Blackwell, 1986).

Hall, John A. and Ikenberry, G. John, *The State* (Milton Keynes: Open University Press, 1989).

Hall, Peter A., *Governing the Economy: The Politics of State Intervention in Britain and France* (Cambridge: Polity Press, 1986).

Hall, Peter A. (ed.), *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton: Princeton University Press, 1989).

Hall, Peter A., 'Introduction', in Peter A. Hall (ed.), *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton: Princeton University Press, 1989), pp.3-26.

Hall, Peter A., 'Conclusion: The Politics of Keynesian Ideas', in Peter A. Hall (ed.), *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton: Princeton University Press, 1989), pp.361-91.

Hall, Peter A., 'The movement from Keynesianism to monetarism: Institutional analysis and British economic policy in the 1970s', in Sven Steinmo, Kathleen Thelen and Frank Longstreth (eds.), *Structuring politics: Historical institutionalism in comparative analysis* (Cambridge: Cambridge University Press, 1992), pp. 90-113.

Hall, Peter A., 'Central Bank Independence and Coordinated Wage Bargaining: Their Interaction in Germany and Europe', *German Politics and Society*, Vol.31, 1994, pp.1-23.

Hall, Peter A. and Gingerich, Daniel W., 'Varieties of Capitalism and Institutional Complementarities in the Political Economy: An Empirical Analysis', *British Journal of Political Science*, Vol.39, No.3, 2009, pp. 449-82.

Hall, Peter A. and Soskice, David (eds.), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: Oxford University Press, 2001).

Hall, Peter A. and Soskice, David, 'An Introduction to Varieties of Capitalism', in Peter A. Hall, and David Soskice (eds.), *Varieties of Capitalism: The*

Institutional Foundations of Comparative Advantage (Oxford: Oxford University Press, 2001), pp.1-68.

Hall, Peter A. and Soskice, David, ‘An Introduction to Varieties of Capitalism’, in Bob Hancké (ed.), *Debating Varieties of Capitalism: A Reader* (Oxford: Oxford University Press, 2009), pp. 21-74.

Halm, George N., *The “Band” Proposal: The Limits of Permissible Exchange Rate Variations, Special Papers in International Economics, No.6* (Princeton: Princeton University Press, 1965).

Hamilton, Arran, ‘Beyond the Sterling Devaluation: The Gold Crisis of March 1968’, *Contemporary European History*, Vol.17, No.1, 2008, pp.73-95.

Harcourt, G. C., *Some Cambridge controversies in the theory of capital* (Cambridge: Cambridge University Press, 1972).

Hardt, Michael and Negri, Antonio, *Empire* (Cambridge: Harvard University Press, 2000).

Hardt, Michael and Negri, Antonio, *Multitude: War and Democracy in the Age of Empire* (London: Penguin Books, 2005).

Hargrove, Erwin C. and Morley, Samuel A. (eds.), *The President and the Council of Economic Advisers: Interviews with CEA Chairmen* (Colorado: Westview Press, 1984).

Harris, Bernard, *The Origins of the British Welfare State: Society, State and Social Welfare in England and Wales, 1800-1945* (Basingstoke: Palgrave Macmillan, 2004).

Harvey, David, *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2005).

Hayek, Friedrich A., *The Road to Serfdom* (London: Routledge, 2001), originally published 1944.

Hayek, Friedrich A., *Individualism and Economic Order* (Chicago: The University of Chicago Press, 1948).

Hayek, Friedrich A., *The Sensory Order: An Inquiry into the Foundations of Theoretical Psychology* (Chicago: The University of Chicago Press, 1952).

Hayek, Friedrich A., *The Constitution of Liberty* (London: Routledge, 2006), originally published 1960.

Hayek, Friedrich A., *Denationalisation of Money - The Argument Refined: An Analysis of the Theory and Practice of Concurrent Currencies, Third Edition* (London: The Institute of Economic Affairs, 1990), originally published 1976.

Hetzel, Robert L., *The Monetary Policy of the Federal Reserve: A History* (New York: Cambridge University Press, 2008).

Hicks, J. R., 'Mr. Keynes and the "Classics"; A Suggested Interpretation', *Econometrica*, Vol.5, No.2, April 1937, pp.147-59.

Hill, Michael J., 'Selectivity for the Poor', in Peter Townsend and Nicholas Bosanquet (eds.), *Labour and Inequality* (London: Fabian Society, 1972), pp.235-45.

Hirsch, Fred and Goldthorpe, John H. (eds.), *The Political Economy of Inflation* (London: Martin Robertson & Co. Ltd., 1978).

Hirschman, Albert O., *The Passions and the Interests: Political Arguments for Capitalism Before its Triumph* (Princeton: Princeton University Press, 1977).

Hobsbawm, Eric, *Nations and Nationalism since 1780: Programme, Myth, Reality*, *Second Edition* (Cambridge: Cambridge University Press, 1992), originally published 1990.

Hobsbawm, Eric, *How to Change the World: Tales of Marx and Marxism* (London: Abacus, 2012).

Hodgson, Geoffrey M., *Economics and Institutions: A Manifesto for a Modern Institutional Economics* (Cambridge: Polity Press, 1988).

Hoffer, Eric, *The True Believer: Thoughts on the Nature of Mass Movements* (New York: Harper & Row, 1951).

Honda, Keikichi and Hata, Tadao, *Kashiwagi Yusuke no Shougen: Sengo Nihon no Kokusai Kinyuushi* (Tokyo: Yuhikaku, 1998).

Horne, Alistair, 'The Macmillan Years and Afterwards', in WM. Roger Louis and Hedley Bull (eds.), *The 'Special Relationship': Anglo-American Relations since 1945* (Oxford: Clarendon Press, 1986), pp.87-102.

Horne, Alistair, *Macmillan, 1957-1986, Volume 2 of the Official Biography* (Basingstoke: Macmillan, 1989).

Howard, Anthony (ed.), *The Crossman Diaries: Selections from the Diaries of a Cabinet Minister 1964-1970, Richard Crossman* (London: Magnum, 1979).

Howard, Michael, 'Afterword: The 'Special Relationship', in WM. Roger Louis, and Hedley Bull (eds.), *The 'Special Relationship': Anglo-American Relations since 1945* (Oxford: Clarendon Press, 1986), pp.387-92.

Howard, Michael C. and King, John E., *The Rise of Neoliberalism in Advanced Capitalist Economies: A Materialist Analysis* (Basingstoke: Palgrave Macmillan, 2008).

Ida, Keiji, *Kokusai Kanri no Keizaigaku* (Tokyo: Shinhyoron Publishing Inc., 1978).

Ikenberry, G. John, 'History's Heavy Hand: Institutions and the Politics of the State', *Paper Prepared for a Conference on 'New Perspectives on Institutions'*, 1994.

Ikenberry, G. John, *Liberal Order and Imperial Ambition: Essays on American Power and World Politics* (Cambridge: Polity Press, 2006).

Ikenberry, G. John, *Liberal Leviathan: The Origins, Crisis, and Transformation of the American World Order* (Princeton: Princeton University Press, 2011).

Ikenberry, G. John 'The end of liberal international order?' *International Affairs*, Vol.94, No.1, 2018, pp.7-23.

Ingham, Geoffrey, 'The Nature of Money', *Economic Sociology, European electronic newsletter*, Vol.5, No.2, 2004, pp.18-28.

Ito, Masanao, *Sengo Nihon no Taigai Kinyuu: 360 yen rate no seiritsu to syuuen* (Nagoya: The University of Nagoya Press, 2009).

Jackson, Ben and Saunders, Robert (eds.), *Making Thatcher's Britain* (Oxford: Oxford University Press, 2012).

Jacobs, Michael and Mazzucato, Mariana (eds.), *Rethinking Capitalism: Economics and Policy for Sustainable and Inclusive Growth* (Oxford: Wiley-Blackwell, 2016).

Jacobs, Michael and Mazzucato, Mariana, 'Rethinking Capitalism: An Introduction', in Michael Jacobs and Mariana Mazzucato (eds.), *Rethinking Capitalism: Economics and Policy for Sustainable and Inclusive Growth* (Oxford: Wiley-Blackwell, 2016), pp.1-27.

James, Harold, *International Monetary Cooperation Since Bretton Woods* (New York: Oxford University Press, 1996).

James, Harold, *Making the European Monetary Union: The Role of the Committee of Central Bank Governors and the Origins of the European Central Bank* (Massachusetts: Harvard University Press, 2012).

Jensen, Michael C. and Meckling, William H., 'Theory of the Firm: Managerial behavior, agency costs and ownership structure', *Journal of Financial Economics*, Vol.3, No.4, 1976, pp.305-60.

Jessop, Bob, *State Theory: Putting the Capitalist State in its Place* (Cambridge: Polity Press, 1990).

Jessop, Bob, *State Power: A Strategic-Relational Approach* (Cambridge: Polity Press, 2008).

Jones, Harriet and Kandiah, Michael (eds.), *The Myth of Consensus: New Views on British History, 1945-64* (Basingstoke: Macmillan, 1996).

Kahler, Miles, 'The State of the State in World Politics' in Ira Katznelson and Helen V. Milner (eds.), *Political Science: The State of the Discipline* (New York: W. W Norton & Company, 2002), pp.56-83.

Kaldor, Nicholas, 'The Radcliffe Report', *The Review of Economics and Statistics,* Vol.42, No.1, February 1960, pp.14-9.

Kaldor, Nicholas, ‘The New Monetarism’, *Lloyds Bank Review*, July 1970, pp.1-18.

Kaldor, Nicholas, *The Scourge of Monetarism, Second Edition* (Oxford: Oxford University Press, 1986), originally published 1982.

Kalecki, Michał, ‘Political Aspects of Full Employment’, *The Political Quarterly*, Vol.14, 1943, pp.322–30.

Kandiah, Michael, ‘Conservative Leaders, Strategy - and ‘Consensus’? 1945-1964’, in Harriet Jones and Michael Kandiah (eds.), *The Myth of Consensus: New Views on British History, 1945-64* (Basingstoke: Macmillan, 1996), pp.58-78.

Kandiah, Michael (ed.), *Debates about the Rise and Fall of the Bretton Woods Agreement, Witness Seminar, 30 September 1994* (London: ICBH, KCL, 2002).

Kaneko, Masaru, ‘Anka na Seihu to Syokuminchi Zaisei: Ei-In Kankei wo Chushin ni shite’, *Fukushima University Syougaku Ronsyu*, Vol. 48, No.3, 1980, pp.97-163.

Kaneko, Masaru, *Shijyou to Seido no Seiji Keizaigaku* (Tokyo: University of Tokyo Press, 1997).

Kashiwagi, Yusuke, *Gekidouki no Tsuuka Gaikou* (Tokyo: Kinyu Zaisei Jijyou Kenkyukai, 1972).

Kato, Junko, *Regressive Taxation and the Welfare State: Path Dependence and Policy Diffusion* (Cambridge: Cambridge University Press, 2003).

Katzenstein, Peter J. (ed.), *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States* (Madison: The University of Wisconsin Press, 1978).

Katzenstein, Peter J., ‘Introduction: Domestic and International Forces and Strategies of Foreign Economic Policy’, in Peter J. Katzenstein (ed.), *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States* (Madison: The University of Wisconsin Press, 1978), pp.3-22.

Katznelson, Ira, 'Structure and Configuration in Comparative Politics', in Mark Irving Lichbach and Alan S. Zuckerman (eds.), *Comparative Politics: Rationality, Culture, and Structure* (Cambridge: Cambridge University Press, 1997), pp.81-112.

Katznelson, Ira and Milner, Helen V. (eds.), *Political Science: The State of the Discipline* (New York: W. W Norton & Company, 2002).

Katznelson, Ira and Milner, Helen V., 'American Political Science: The Discipline's State and the State of the Discipline', in Ira Katznelson and Helen V. Milner (eds.), *Political Science: The State of the Discipline* (New York: W. W Norton & Company, 2002), pp.1-32.

Kay, J. A. and King, M. A., *The British Tax System* (Oxford: Oxford University Press, 1978).

Keck, Margaret E. and Sikkink, Kathryn, *Activists beyond Borders: Advocacy Networks in International Politics* (London: Cornell University Press, 1998).

Kelton, Stephanie, 'The Failure of Austerity: Rethinking Fiscal Policy', in Michael Jacobs and Mariana Mazzucato (eds.), *Rethinking Capitalism: Economics and Policy for Sustainable and Inclusive Growth* (Oxford: Wiley-Blackwell, 2016), pp. 28-46.

Kemeny, Jim, 'Home ownership and privatization', *International Journal of Urban and Regional Research*, Vol.4, No.3, September 1980, pp.372-88.

Kennedy, Paul, *The Realities Behind Diplomacy: Background Influences on British External Policy, 1865-1980* (London: Fontana Press, 1981).

Keohane, Robert O., *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984).

Keohane, Robert O., 'Theory of World Politics: Structural Realism and Beyond', in Robert O. Keohane (ed.), *Neorealism and its Critics* (New York: Columbia University Press, 1986), pp.158-203.

Kettell, Steven, *The Political Economy of Exchange Rate Policy-Making: From the Gold Standard to the Euro* (Basingstoke: Palgrave Macmillan, 2004).

Keynes, John Maynard, *The General Theory of Employment, Interest, and Money* (London: Macmillan, 1967), originally published 1936.

Kindleberger, Charles P., *Power and Money: The Economics of International Politics and the Politics of International Economics* (Basingstoke: Macmillan, 1970).

Kindleberger, Charles P., *The World in Depression, 1929-1939* (Berkeley: University of California Press, 1973).

King, Desmond, *Actively Seeking Work? The Politics of Unemployment and Welfare Policy in the United States and Great Britain* (Chicago: The University of Chicago Press, 1995).

King, Mervyn, *Public Policy and the Corporation* (London: Chapman and Hall Ltd, 1977).

Kitschelt, Herbert, Lange, P., Marks, G. and Stephens, John D. (eds.), *Continuity and Change in Contemporary Capitalism* (Cambridge: Cambridge University Press, 1999).

Knapp, Georg Friedrich, *The State Theory of Money* (London: Macmillan, 1924).

Knight, Frank H., *Risk, Uncertainty and Profit* (Chicago: University of Chicago Press, 1921).

Korpi, Walter, *The Democratic Class Struggle (London: Routledge, 1983).*

Korpi, Walter and Palme, Joakim, 'The Paradox of Redistribution and Strategies of Equality: Welfare State Institutions, Inequality, and Poverty in the Western Countries', *American Sociological Review*, Vol.63, No.5, 1998, pp.661-87.

Kotz, David M., *The Rise and Fall of Neoliberal Capitalism* (Massachusetts: Harvard University Press, 2015).

Krasner, Stephen D., ‘United States Commercial and Monetary Policy: Unravelling the Paradox of External Strength and Internal Weakness’, in Peter J. Katzenstein (ed.), *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States* (Madison: The University of Wisconsin Press, 1978), pp.51-87.

Krasner, Stephen D., *Power, the State, and Sovereignty: Essays on international relations* (Abingdon: Routledge, 2009).

Krugman, Paul R., *Currencies and Crises* (Massachusetts: The MIT Press, 1995).

Kunz, Diane B., *The Economic Diplomacy of the Suez Crisis* (London: The University of North Carolina Press, 1991).

Kunz, Diane B., ‘‘Somewhat mixed up together’: Anglo-American Defence and Financial Policy during the 1960s’, *The Journal of Imperial and Commonwealth History*, Vol.27, No.2, 1999, pp.213-32.

Kynaston, David, ‘The Bank of England and the Government’, in Richard Roberts and David Kynaston (eds.), *The Bank of England: Money, Power and Influence, 1694-1994* (Oxford: Clarendon Press, 1995), pp.19-55.

Laclau, Ernesto and Mouffe, Chantal, *Hegemony and Socialist Strategy: Towards a Radical Democratic Politics, Second Edition* (London: Verso, 2014), originally published 1985.

Laeven, Luc and Valencia, Fabian, ‘Systemic Banking Crises: A New Database’, *IMF Working Paper,* No. 08/224, 2008.

Laeven, Luc and Valencia, Fabian, ‘Systemic Banking Crises Database: An Update’, *IMF Working Paper,* No. 12/163, 2012.

Levi, Margaret, ‘The State of the Study of the State’, in Ira Katznelson and Helen V. Milner (eds.), *Political Science: The State of the Discipline* (New York: W. W Norton & Company, 2002), pp. 33-55.

Lévi-Strauss, Claude, *The Elementary Structures of Kinship* (Boston: Beacon Press, 1969).

Louis, WM. Roger and Bull, Hedley (eds.), *The 'Special Relationship': Anglo-American Relations since 1945* (Oxford: Clarendon Press, 1986).

Lowe, Stuart, *The Housing Debate* (Bristol: Policy Press, 2011).

Lucas Jr., Robert E., 'Expectations and the Neutrality of Money,' *Journal of Economic Theory,* Vol.4, No.2, 1972, pp.103-24.

Lund, Brian, *Housing Problems and Housing Policy* (London: Longman, 1996).

Lund, Brian, *Housing Politics in the United Kingdom: Power, planning and protest* (Bristol: Policy Press, 2016).

Lunde, Jens and Whitehead, Christine, 'Introduction: Milestones in European Housing Finance since 1989', in Jens Lunde and Christine Whitehead (eds.), *Milestones in European Housing Finance* (Chichester: John Wiley & Sons, Ltd., 2016), pp.1-14.

Lundestad, Geir, *The American "Empire"* (Stavanger: Norwegian University Press, 1990).

Lundestad, Geir, *"Empire" By Integration: The United States and European Integration, 1945-1997* (Oxford: Oxford University Press, 1998).

Lundestad, Geir, *The United States and Western Europe since 1945: From "Empire" by Invitation to Transatlantic Drift* (Oxford: Oxford University Press, 2003).

MacDougall, Donald, *Don and Mandarin: Memoirs of an Economist* (London: John Murray, 1987).

Mann, Michael, *The Sources of Social Power: Volume 1, A History of Power from the Beginning to A.D. 1760* (Cambridge: Cambridge University Press, 1986).

Mann, Michael, 'The Autonomous Power of the State: Its Origins, Mechanisms and Results', in John A. Hall (ed.), *States in History* (Oxford: Basil Blackwell, 1986), pp. 109-36.

Mann, Michael, *The Sources of Social Power: Volume 4, Globalizations, 1945-2011* (Cambridge: Cambridge University Press, 2013).

Marglin, Stephen A. and Schor, Juliet B. (eds.), *The Golden Age of Capitalism: Reinterpreting the Postwar Experience* (Oxford: Oxford University Press, 1990).

Marshall, Thomas H., 'Citizenship and Social Class', in Thomas H. Marshall, *Citizenship and Social Class and other Essays* (Cambridge: Cambridge University Press, 1950), pp.1-85.

Matusow, Allen J., *Nixon's Economy: Booms, Busts, Dollars, and Votes* (Kansas: University Press of Kansas, 1998).

Meade, James, 'Exchange-Rate Flexibility', *The Three Banks Review*, No.70, 1966, pp.3-27.

Meltzer, Allan H., *A History of the Federal Reserve, Vol.1: 1913-1951* (Chicago: The University of Chicago Press, 2003).

Meltzer, Allan H., *A History of the Federal Reserve, Vol.2: Books 1-2, 1951-1986* (Chicago: The University of Chicago Press, 2009).

Mercer, Helen, 'Industrial Organisation and Ownership, and a New Definition of the Postwar 'Consensus'', in Harriet Jones and Michael Kandiah (eds.), *The Myth of Consensus: New Views on British History, 1945-64* (Basingstoke: Macmillan, 1996), pp.139-56.

Middlemas, Keith, *Politics in Industrial Society: The Experience of the British System since 1911* (London: André Deutsch, 1979).

Middleton, Roger, *Government versus the Market: The Growth of the Public Sector, Economic Management and British Economic Performance, c. 1890-1979* (Cheltenham: Edward Elgar, 1996).

Middleton, Roger, *The British Economy Since 1945: Engaging With The Debate* (Basingstoke: Macmillan, 2000).

Middleton, Roger, 'Struggling with the Impossible: Sterling, the Balance of Payments and British Economic Policy, 1949-72', in A. Arnon and W.

Young (eds.), *The Open Economy Macromodel: Past, Present and Future* (London: Kluwer Academic Press, 2002), pp.103-54.

Miliband, Ralph, *The State in Capitalist Society* (London: Weidenfeld and Nicolson, 1969).

Milward, Alan S., *The European Rescue of the Nation-State* (London: Routledge, 1992).

Minsky, Hyman P., *John Maynard Keynes* (New York: Columbia University Press, 1975).

Minsky, Hyman P., *Can "It" Happen Again? Essays on Instability and Finance* (New York: M. E. Sharpe, Inc., 1982).

Minsky, Hyman P., *Stabilizing an Unstable Economy* (New Haven: Yale University Press, 1986).

Minsky, Hyman P., 'The Essential Characteristics of Post Keynesian Economics', in Ghislain Deleplace and Esward J. Nell (eds.), *Money in Motion: The Post-Keynesian and Circulation Approaches* (Basingstoke: Palgrave Macmillan, 1996), pp.70-88.

Mody, Ashoka, *Euro Tragedy: A Drama in Nine Acts* (Oxford: Oxford University Press, 2018).

Moore, Barry and Rhodes, John, 'The relative decline of the UK manufacturing sector', *Economic Policy Review*, Vol.2, pp.36-41.

Morgenthau, Hans J., *Politics Among Nations: The Struggle for Power and Peace* (New York: Alfred A. Knopf, 1948).

Mosley, Paul, *The Making of Economic Policy: Theory and Evidence from Britain and the United States since 1945* (New York: St. Martin's Press, 1984).

Mullins, David and Murie, Alan, *Housing Policy in the UK* (Basingstoke: Palgrave Macmillan, 2006).

Mundell, Robert A., *International Economics* (London: Macmillan, 1968)

Mundell, Robert A. and Swoboda, Alexander K. (eds.), *Monetary Problems of the International Economy* (Chicago: The University of Chicago Press, 1969).

Murie, Alan, ‘The housing legacy of Thatcherism’, in Stephen Farrall and Colin Hay (eds.), *The Legacy of Thatcherism: Assessing and Exploring Thatcherite Social and Economic Policies* (Oxford: Oxford University Press, 2014), pp.143-66.

Musgrave, Richard A. and Musgrave, Peggy B., *Public Finance in Theory and Practice, Fifth Edition* (New York: McGraw-Hill, 1989), originally published 1973.

Nettl, J. P., ‘The State as a Conceptual Variable’, *World Politics*, Vol.20, No.4, 1968, pp.559-92.

Newton, Scott, ‘The two sterling crises of 1964 and the decision not to devalue’, *The Economic History Review*, Vol.62, No.1, 2009, pp.73-98.

Newton, Scott, ‘The Sterling Devaluation of 1967, the International Economy and Post-War Social Democracy’, *English Historical Review*, Vol. CXXV, No.515, 2010, pp.912-45.

North, Douglass C., *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990).

North, Douglass C., Wallis, John Joseph and Weingast, Barry R., *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History* (Cambridge: Cambridge University Press, 2009).

Oakeshott, Michael, *Rationalism in Politics and Other Essays* (London: Methuen, 1962).

O’Connor, James, *The Fiscal Crisis of the State* (New York: St Martin’s Press, 1973).

Odell, John S., *U.S. International Monetary Policy: Markets, Power and Ideas as Sources of Change* (Princeton: Princeton University Press, 1982).

Offe, Claus, *Contradictions of the Welfare State* (Massachusetts: The MIT Press, 1984).

Offe, Claus, *Disorganized Capitalism: Contemporary Transformations of Work and Politics* (Cambridge: Polity Press, 1985).

Offe, Claus, 'Challenging the boundaries of institutional politics: social movements since the 1960s', in Charles S. Maier (ed.), *Changing Boundaries of the Political: Essays on the Evolving Balance between the State and Society, Public and Private in Europe* (New York: Cambridge University Press, 1987), pp. 63-105.

Office of Historical Studies, Ministry of Finance, Japan (ed.), *History of Fiscal and Monetary Policies in Japan, 1952-1973: Volume XII, International Finance and External Economic Affairs Part II* (Tokyo: Tokyo Keizai Inc., 1992).

Office of Historical Studies, Ministry of Finance, Japan (ed.), *History of Fiscal and Monetary Policies in Japan, 1952-1973: Volume XI, International Finance and External Economic Affairs Part I* (Tokyo: Tokyo Keizai Inc., 1999).

O'Hara, Glen, British economic and social planning 1959-1970 (unpublished PhD thesis, University College London, 2002).

O'Hara, Glen, 'The Limits of US Power: Transatlantic Financial Diplomacy under the Johnson and Wilson Administrations, October 1964–November 1968', *Contemporary European History*, Vol.12, No.3, 2003, pp.257-78.

O'Hara, Glen, ''Dynamic, Exciting, Thrilling Change': the Wilson Government's Economic Policies, 1964-70', in Glen O'Hara and Helen Parr (eds.), *The Wilson Governments 1964-1970 Reconsidered* (London: Routledge, 2006), pp.81-98.

O'Hara, Glen, *Governing Post-War Britain: The Paradoxes of Progress, 1951-1973* (Basingstoke: Palgrave Macmillan, 2012).

O'Hara, Glen and Parr, Helen (eds.), *The Wilson Governments 1964-1970 Reconsidered* (London: Routledge, 2006).

O'Hara, Glen and Parr, Helen, 'Conclusions: Harold Wilson's 1964-70 Governments and the Heritage of 'New' Labour', in Glen O'Hara and

Helen Parr (eds.), *The Wilson Governments 1964-1970 Reconsidered* (London: Routledge, 2006), pp.171-83.

Oliver, Michael J., 'From Fixed to Floating Rates: The British Experience, 1960-1972', in Robert Leeson (ed.), *The Anti-Keynesian Tradition* (Basingstoke: Palgrave Macmillan, 2008), pp.113-36.

Oliver, Michael J., 'The Management of Sterling, 1964-1967', *The English Historical Review*, Vol.126, No.520, 2011, pp.582-613.

Oliver, Michael J., 'The two sterling crises of 1964: a comment on Newton', *The Economic History Review*, Vol.65, No.1, 2012. pp.314-21.

Oliver, Michael J. and Hamilton, Arran, 'Downhill from devaluation: The battle for sterling, 1968-72', *The Economic History Review*, Vol.60, No.3, 2007, pp.486-512.

Olson, Mancur Jr., T*he Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge: Harvard University Press, 1965).

Ostrom, Elinor, *Governing the Commons: The Evolution of Institutions for Collective Action* (Cambridge: Cambridge University Press, 1990).

Ovendale, Ritchie, *Anglo-American Relations in the Twentieth Century* (Basingstoke: Palgrave Macmillan, 1998).

Parr, Helen, 'Britain, America, East of Suez and the EEC: Finding a Role in British Foreign Policy, 1964-67', *Contemporary British History*, Vol.20, No.3 September 2006, pp.403-21.

Peacock, Alan T. and Wiseman, Jack, *The Growth of Public Expenditure in the United Kingdom* (Princeton: Princeton University Press, 1961).

Pedersen, Susan, *Family, Dependence, and the Origins of the Welfare State: Britain and France, 1914-1945* (New York: Cambridge University Press, 1993).

Pemberton, Hugh, 'A Taxing Task: Combating Britain's Relative Decline in the 1960s', *Twentieth Century British History*, Vol.12, No.3, 2001, pp.354-75.

Pemberton, Hugh, *Policy Learning and British Governance in the 1960s* (Basingstoke: Palgrave Macmillan, 2004).

Pemberton, Hugh, 'Taxation and Labour's Modernisation Programme', *Contemporary British History*, Vol.20, No.3, September 2006, pp.423-40.

Peyrefitte, Alain, *C'était de Gaulle: Tout le monde a besoin d'une France qui marche* (Paris: Gallimard, 2002).

Pierson, Christopher, *Beyond the Welfare State? The New Political Economy of Welfare, Third Edition* (Cambridge: Polity Press, 2006), originally published 1991.

Pierson, Paul, *Dismantling the Welfare State? Reagan, Thatcher, and the Politics of Retrenchment* (Cambridge: Cambridge University Press, 1994).

Pierson, Paul, 'Increasing Returns, Path Dependence, and the Study of Politics', *The American Political Science Review*, Vol.94, No.2, 2000, pp.251-67.

Pierson, Paul, *Politics in Time: History, Institutions, and Social Analysis* (Princeton: Princeton University Press, 2004).

Pierson, Paul and Skocpol, Theda, 'Historical Institutionalism in Contemporary Political Science', in Ira Katznelson and Helen V. Milner (eds.), *Political Science: The State of the Discipline* (New York: W. W Norton & Company, 2002), pp. 693-721.

Piketty, Thomas, *Capital in the Twenty-First Century* (Cambridge: Harvard University Press, 2014).

Pimlott, Ben, *Harold Wilson* (London: Harper Collins, 1992).

Polanyi, Karl, *The Great Transformation: The Political and Economic Origins of Our Time* (Massachusetts: Beacon Press, 2001), originally published 1944.

Ponting, Clive, *Breach of Promise: Labour in Power 1964-1970* (London: Penguin Books, 1990).

Poulantzas, Nicos, *Political Power and Social Classes* (London: Verso, 1978), originally published 1968.

Poulantzas, Nicos, *State, Power, Socialism* (London: Verso, 2000), originally published 1978.

Prasad, Monica, *The Politics of Free Markets, The Rise of Neoliberal Economic Policies in Britain, France, Germany, and the United States* (Chicago: The University of Chicago Press, 2006).

Price, R. W. R., 'Public Expenditure', F. T. Blackaby (ed.), *British Economic Policy 1960-74: Demand Management*, *NIESR Students' Edition* (Cambridge: Cambridge University Press, 1979), pp.77-134.

Price, R. W. R., 'Budgetary Policy', F. T. Blackaby (ed.), *British Economic Policy 1960-74: Demand Management*, *NIESR Students' Edition* (Cambridge: Cambridge University Press, 1979), pp.135-217.

Priest, Andrew, *Kennedy, Johnson and NATO: Britain, America and the dynamics of alliance, 1962-68* (London: Routledge, 2006).

Putnam, Robert D., 'Diplomacy and domestic politics: the logic of two-level games', *International Organization*, Vol.42, No.3, 1988, pp.427-60.

Rawls, John, *A Theory of Justice* (Massachusetts: Harvard University Press, 1971).

Ricardo, David, *On the Principles of Political Economy and Taxation* (New York: Dover Publications, 2004), originally published 1817.

Riesman, David, *The Lonely Crowd: A Study of the Changing American Character* (New Haven: Yale University Press, 1950).

Roberts, Richard, ''Unwept, unhonoured and unsung': Britain's import surcharge, 1964-1966, and currency crisis management', *Financial History Review*, Vol.20, No.2, 2013, pp.209-29.

Roberts, Richard and Kynaston, David (eds.), *The Bank of England: Money, Power and Influence, 1694-1994* (Oxford: Clarendon Press, 1995).

Robinson, Ann and Sandford, Cedric, *Tax Policy-Making in the United Kingdom: A Study of Rationality, Ideology and Politics* (London: Heinemann Educational Books, 1983).

Robinson, Joan, ‘The Production Function and the Theory of Capital’, *Review of Economic Studies*, Vol.21, No.2, 1953-1954, pp.81-106.

Robinson, Joan, ‘What Has Become of the Keynesian Revolution?’ *Challenge*, Vol.16, No.6, 1974, pp. 6-11.

Rodrik, Dani, *Has Globalization Gone Too Far?* (Washington DC: Institute for International Economics, 1997).

Rodrik, Dani, *The Globalization Paradox: Democracy and the Future of the World Economy* (New York: W.W. Norton & Company, Inc., 2011).

Romero, Federico, ‘Interdependence and integration in American eyes: from the Marshall Plan to currency convertibility’, in Alan S. Milward, Frances M. B. Lynch, Ruggero Ranieri, Federico Romero and Vibeke Sørensen, *The Frontier of National Sovereignty: History and theory 1945-1992* (London: Routledge, 1993), pp.155-81.

Roosa, Robert V., *Monetary Reform for the World Economy* (New York: Harper and Row, 1965).

Roosa, Robert V., *The Dollar and World Liquidity* (New York: Random House, 1967).

Rossbach, Niklas H., *Heath, Nixon and the rebirth of the Special Relationship: Britain, the US and the EC, 1969–74* (Basingstoke: Palgrave Macmillan, 2009).

Roy, Rajarshi, The Battle of the Pound: The Political Economy of Anglo-American Relations, 1964-1968 (unpublished PhD thesis, London School of Economics and Political Science, 2000).

Roy, Raj, ‘The Battle for Bretton Woods: America, Britain and the international financial crisis of October 1967-March 1968’, *Cold War History*, Vol.2, No.2, 2002, pp.33-60.

Roy, Raj, ‘No Secrets Between ‘Special Friends’: America’s Involvement in British Economic Policy, October 1964–April 1965’, *History*, Vol.89, No.295, 2004, pp.399–423.

Rubinstein, W. D., *Capitalism, Culture and Decline in Britain 1750-1990* (London: Routledge, 1993).

Ruggie, John Gerard, ‘International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order’, *International Organization*, Vol.36, No.2, 1982, pp.379-415.

Ruggie, John Gerard, *Constructing the World Polity: Essays on International Institutionalization* (London: Routledge, 1998).

Samuelson, Paul A., ‘Parable and Realism in Capital Theory: The Surrogate Production Function’, *The Review of Economic Studies*, Vol.29, No.3, 1962, pp.193-206.

Samuelson, Paul A. and Nordhaus, William D., *Economics*, *Thirteenth Edition* (New York: McGraw Hill, 1989).

Samuelson, Paul A. and Solow, Robert M., ‘Analytical Aspects of Anti-Inflation Policy’, *American Economic Review*, Vol.50, 1960, pp.177-84.

Sandford, C. T., *The Economics of Public Finance, Second Edition* (Oxford: Pergamon Press, 1978), originally published 1969.

Sandford, Cedric, *Why Tax System Differ: A Comparative Study of the Political Economy of Taxation* (Bath: Fiscal Publications, 2000).

Sayers, Richard S., *Modern Banking, Seventh Edition* (Oxford: Clarendon Press, 1967), originally published 1938.

Sayers, Richard S., *The Bank of England, 1891-1944* (Cambridge: Cambridge University Press, 1976).

Schäfer, Armin and Streeck, Wolfgang (eds.), *Politics in the Age of Austerity* (Cambridge: Polity Press, 2013).

Schäfer, Armin and Streeck, Wolfgang, ‘Introduction: Politics in the Age of Austerity’, in Armin Schäfer and Wolfgang Streeck (eds.), *Politics in the Age of Austerity* (Cambridge: Polity Press, 2013), pp.1-25.

Schenk, Catherine R., *The Decline of Sterling: Managing the Retreat of an International Currency 1945-1992* (Cambridge: Cambridge University Press, 2010).

Schenk, Catherine R., *International Economic Relations Since 1945* (Abingdon: Routledge, 2011).

Schlesinger, Arthur M., *A Thousand Days: John F. Kennedy in the White House* (New York: Fawcett Premier, 1971), originally published 1965.

Schmölders, Günter, *Finanzpolitik* (Berlin: Springer-Verlag, 1955), translated by Tadao Yamaguchi *et al.* into Japanese, Zaisei seisaku dai ippan (Tokyo: Toyo Keizai Inc., 1957).

Schumpeter, Joseph A., *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle* (London: Transaction Publishers, 1983), originally published 1934.

Schwartz, Anna J., *Money in Historical Perspective* (Chicago: The University of Chicago Press, 1987).

Schwartz, Herman M. and Seabrooke, Leonard, ‘Varieties of Residential Capitalism in the International Political Economy: Old Welfare States and the New Politics of Housing’, in Herman M. Schwartz and Leonard Seabrooke (eds.), *The Politics of Housing Booms and Busts* (Basingstoke: Palgrave Macmillan, 2009), pp.1-27.

Scott, Andrew, *Allies Apart: Heath, Nixon and the Anglo-American Relationship* (Basingstoke: Palgrave Macmillan, 2011).

Sen, Amartya, *Inequality Reexamined* (Cambridge: Harvard University Press, 1995).

Shiller, Robert J., ‘Rational expectations and the dynamic structure of macroeconomic models: A critical review’, *Journal of Monetary Economics*, Vol.4, No.1, 1978, pp.1-44.

Shirakawa, Masaaki, *Gendai no Kinyu Seisaku: Riron to Jissen* (Tokyo: Nikkei Publishing Inc., 2008).

Shonfield, Andrew, *British Economic Policy Since the War* (London: Penguin Books, 1958).

Short, Edward, *Whip to Wilson: The crucial years of Labour Government* (London: Macdonald & Co. Ltd., 1989).

Simmons, Beth A., 'The Internationalization of Capital', in Herbert Kitschelt, Peter Lange, Gary Marks and John D. Stephens (eds.), *Continuity and Change in Contemporary Capitalism* (Cambridge: Cambridge University Press, 1999), pp.36-69.

Skocpol, Theda, *States and Social Revolutions: A Comparative Analysis of France, Russia and China* (Cambridge: Cambridge University Press, 1979).

Skocpol, Theda, 'Bringing the State Back in: Strategies of Analysis in Current Research', in Peter B. Evans, Dietrich Rueschemeyer and Theda Skocpol (eds.), *Bringing the State Back in* (Cambridge: Cambridge University Press, 1985), pp.3-37.

Smith, Adam, *An Inquiry into the Nature and Causes of the Wealth of Nations* (London: Methuen, 1922), originally published 1776.

Smith, Matthew, 'Thomas Tooke on the Bullionist controversies', *The European Journal of the History of Economic Thought*, Vol.15, No.1, 2008, pp.49-84.

Solomon, Robert, *The International Monetary System, 1945-1981* (New York: Harper and Row, 1982).

Sombart, Werner, *Krieg und Kapitalismus* (München: Duncker & Humblot, 1913), translated by Kanamori Seiya into Japanese, Sensou to Shihonsyugi (Tokyo: Ronsosha, 1996).

Sorensen, Theodore C., *Kennedy* (New York: Smithmark, 1965).

Stein, Herbert, *The Fiscal Revolution in America* (Chicago: The University of Chicago Press, 1969).

Steinbruner, J. D., *The Cybernetic Theory of Decision: New Dimensions of Political Analysis* (Princeton: Princeton University Press, 1974).

Steinmo, Sven, *Taxation and Democracy: Swedish, British and American Approaches to Financing the Modern State* (London: Yale University Press, 1993).

Steinmo, Sven, ‘Governing as an Engineering Problem: The Political Economy of Swedish Success’, in Armin Schäfer and Wolfgang Streeck (eds.), *Politics in the Age of Austerity* (Cambridge: Polity Press, 2013), pp.84-107.

Steinmo, Sven, Thelen, Kathleen and Longstreth, Frank (eds.), *Structuring politics: Historical institutionalism in comparative analysis* (Cambridge: Cambridge University Press, 1992).

Stewart, Michael, *Politics and Economic Policy in the UK since 1964: The Jekyll and Hyde Years* (Oxford: Pergamon Press Ltd., 1978).

Story, Jonathan, ‘The Launching of the EMS: An Analysis of Change in Foreign Economic Policy’, *Political Studies*, Vol.36, No.3, 1988, pp.397-412.

Strange, Susan, *International Monetary Relations* (Oxford: Oxford University Press, 1976).

Strange, Susan, *International Economic Relations of the Western World 1959-1971, Vol. 2, International Monetary Relations* (London: Oxford University Press, 1976).

Streeck, Wolfgang, ‘The Crisis in Context: Democratic Capitalism and its Contradictions’, in Armin Schäfer and Wolfgang Streeck (eds.), *Politics in the Age of Austerity* (Cambridge: Polity Press, 2013), pp. 262-86.

Streeck, Wolfgang, *Buying Time: The Delayed Crisis of Democratic Capitalism* (London: Verso, 2014).

Streeck, Wolfgang, *How Will Capitalism End? Essays on a Failing System* (London: Verso, 2016).

Streeck, Wolfgang and Mertens, Daniel, ‘Public Finance and the Decline of State Capacity in Democratic Capitalism’, in Armin Schäfer, and

Wolfgang Streeck (eds.), *Politics in the Age of Austerity* (Cambridge: Polity Press, 2013), pp.26-58.

Streeck, Wolfgang and Thelen, Kathleen (eds.), *Beyond Continuity: Institutional Change in Advanced Political Economies* (Oxford: Oxford University Press, 2005).

Streeck, Wolfgang and Thelen, Kathleen, 'Introduction: Institutional Change in Advanced Political Economies', in Wolfgang Streeck and Kathleen Thelen (eds.), *Beyond Continuity: Institutional Change in Advanced Political Economies* (Oxford: Oxford University Press, 2005), pp.1-39.

Sutcliffe-Braithwaite, Florence, 'Neo-liberalism and Morality in the Making of Thatcherite Social Policy', *The Historical Journal*, Vol.55, No.2, 2012, pp. 497-520.

Suzuki, Takeo, *Nihon Kousai ron* (Tokyo: Kinyu Zaisei Jijyou Kenkyuukai, 1976).

Tew, Brian, *International Monetary Cooperation 1945-70* (London: Hutchinson & Co. Ltd., 1970).

Thaler, Richard H. and Sunstein, Cass R., *Nudge: Improving Decisions About Health, Wealth and Happiness* (London: Penguin Books, 2009).

Thane, Pat, *Foundations of the Welfare State, Second Edition* (London: Pearson Longman, 1996), originally published 1982.

Thelen, Kathleen and Steinmo, Sven, 'Historical institutionalism in comparative politics', in Sven Steinmo, Kathleen Thelen, and Frank Longstreth (eds.), *Structuring politics: Historical institutionalism in comparative analysis (Cambridge: Cambridge University Press, 1992)*, pp.1-32.

Thirlwall, A. P. and Gibson, Heather D., *Balance-of-Payments Theory and the United Kingdom Experience, Fourth Edition* (Basingstoke: Macmillan, 1992), originally published 1980.

Thompson, Helen, *Might, right, prosperity and consent: Representative democracy and the international economy 1919-2001* (Manchester: Manchester University Press, 2008).

Thompson, Helen, ‘The Thatcherite economic legacy’, in Stephen Farrall and Colin Hay (eds.), *The Legacy of Thatcherism: Assessing and Exploring Thatcherite Social and Economic Policies* (Oxford: Oxford University Press, 2014), pp.33- 68.

Tilly, Charles, ‘Reflections on the History of European State-Making’, in Charles Tilly (ed.), *The Formation of National States in Western Europe* (Princeton: Princeton University Press, 1975), pp. 3-83.

Tilly, Charles, *Coercion, Capital, and European States, AD 990-1992* (Oxford: Blackwell, 1993).

Tischer, Johannes, ‘Quantitative Easing, Portfolio Rebalancing and Credit Growth: Micro Evidence from Germany’, *Bundesbank Discussion Paper*, No.20, 2018.

Titmuss, Richard M., *Problems of Social Policy* (London: Her Majesty’s Stationery Office, 1950).

Titmuss, Richard M., ‘The Social Division of Warfare: Some Reflections on the State’, in Richard M. Titmuss, *Essays on ‘The Welfare State’* (London: Allen and Unwin, 1958), pp.34-55.

Titmuss, Richard M., ‘War and Social Policy’, in Richard M. Titmuss, *Essays on ‘The Welfare State’* (London: Allen and Unwin, 1958), pp.75-87.

Titmuss, Richard M., ‘The Role of Redistribution in Social Policy’, *Social Security Bulletin*, Vol.28, No.6, 1965, pp.14-20.

Titmuss, Richard M., *Social Policy: An Introduction,* edited by Brian Abel-Smith and Kay Titmuss (London: Allen and Unwin, 1974).

Tobin, James, ‘A general equilibrium approach to monetary theory’, *Journal of Money, Credit and Banking*, Vol.1, No.1, 1969, pp.15-29.

Tobin, James, *Essays in Economics Volume 1: Macroeconomics* (Oxford: North-Holland, 1971).

Tobin, James, ‘An Essay on the Principles of Debt Management’, in James Tobin, *Essays in Economics Volume 1: Macroeconomics* (Oxford: North-Holland, 1971), pp.378-455.

Tobin, James, *The New Economics One Decade Older* (Princeton: Princeton University Press, 1974).

Tobin, James, 'A Proposal for International Monetary Reform,' *Eastern Economic Journal*, Vol.4, No.3/4, 1978, pp.153-9.

Tomlinson, Jim, 'Why was there never a 'Keynesian Revolution' in economic policy?' *Economy and Society*, Vol.10, No.1, February 1981, pp.72-87.

Tomlinson, Jim, 'Inventing 'decline': the falling behind of the British economy in the postwar years', *The Economic History Review*, Vol.49, No.4, 1996, pp.731-57.

Tomlinson, Jim, *Democratic socialism and economic policy: The Attlee years, 1945-1951* (Cambridge: Cambridge University Press, 1997).

Tomlinson, Jim, *The Labour Governments 1964-1970: Economic Policy, Volume 3* (Manchester: Manchester University Press, 2009).

Tomlinson, Jim, 'Thatcher, monetarism and the politics of inflation', in Ben Jackson and Robert Saunders (eds.), *Making Thatcher's Britain* (Cambridge: Cambridge University Press, 2012), pp.62-77.

Toniolo, Gianni, *Central Bank Cooperation at the Bank for International Settlements, 1930-1973* (New York: Cambridge University Press, 2007).

Tooke, Thomas, *An Inquiry into the Currency Principle: The Connection of the Currency with the Prices, and the Expediency of a Separation of Issue from Banking* (London: Longman, 1844).

Townsend, Peter, 'Introduction: does selectivity mean a nation divided?' in Peter Townsend, Mike Reddin and Peter Kaim-Caudle, *Social Services For All? Part One* (London: Fabian Society, 1968), pp.1-6.

Triffin, Robert, *Gold and the Dollar Crisis: The Future of Convertibility* (New Haven: Yale University Press, 1960).

Truman, David B., *The Governmental Process: Political Interests and Public Opinion* (New York: Alfred A. Knopf, 1951).

Tsuchiya, Hideo, *1971 nen: Shijyouka to Net-ka no Kigen* (Tokyo: NTT Publishing Co. Ltd., 2014).

Turner, Rachel S., *Neo-Liberal Ideology: History, Concepts and Policies* Edinburgh: Edinburgh University Press Ltd, 2008).

Veblen, Thorstein, *The Theory of the Leisure Class* (Oxford: Oxford University Press, 2007), originally published 1899.

Veblen, Thorstein, *The Instinct of Workmanship and the State of the Industrial Arts* (New York: Augustus M. Kelly, 1964), originally published 1914.

Vinen, Richard, *Thatcher's Britain: The Politics and Social Upheaval of the 1980s* (London: Simon & Schuster, 2010).

Volcker, Paul and Gyohten, Toyoo, *Changing Fortunes: The World's Money and the Threat to American Leadership* (New York: Times Books, 1992).

Wagner, Richard E., *Deficits, Debt, and Democracy: Wrestling with Tragedy on the Fiscal Commons* (Cheltenham: Edward Elgar Publishing Limited, 2012).

Wallerstein, Immanuel, *Historical Capitalism with Capitalist Civilization* (London: Verso, 1995).

Waltz, Kenneth N., *Theory of International Politics* (Massachusetts: Addison-Wesley, 1979).

Watt, Cameron D., *Succeeding John Bull: America in Britain's Place, 1900-1975* (Cambridge: Cambridge University Press, 1984).

Weber, Max, *The Vocation Lectures* (Cambridge: Hackett Publishing Company, 2004), originally published 1919.

Weir, Margaret, 'Ideas and Politics: The Acceptance of Keynesianism in Britain and the United States', in Peter A. Hall (ed.), *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton: Princeton University Press, 1989), pp.53-86.

Weir, Margaret, 'Ideas and the politics of bounded innovation', in Sven Steinmo Kathleen Thelen and Frank Longstreth (eds.), *Structuring politics:*

Historical institutionalism in comparative analysis (Cambridge: Cambridge University Press, 1992), pp.188-216.

Weir, Margaret, Orloff, Ann Shola and Skocpol, Theda, 'Introduction: Understanding American Social Politics', in Margaret Weir, Ann Shola Orloff and Theda Skocpol (eds.), *The Politics of Social Policy in the United States* (Princeton: Princeton University Press, 1988), pp.3-27.

Whiting, Richard, *The Labour Party and Taxation: Party Identity and Political Purpose in Twentieth-Century Britain* (Cambridge: Cambridge University Press, 2000).

Wiener, Martin J., *English Culture and the Decline of the Industrial Spirit 1850-1980* (Cambridge: Cambridge University Press, 1981).

Wilensky, Harold L., *The Welfare State and Equality: Structural and Ideological Roots of Public Expenditures* (Berkeley: University of California Press, 1975).

Williamson, John H., *The Crawling Peg, Essays in International Finance, No. 50* (Princeton: Princeton University Press, 1965).

Williamson, O. E., *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting* (London: Macmillan, 1985).

Wilson, Harold, *The Labour Government 1964-1970: A Personal Record* (London: Weidenfeld and Nicolson, 1971).

Wohlforth, William C., 'The Stability of a Unipolar World', *International Security*, Vol.24, No.1, 1999, pp.5-41.

Wolfson, Martin H., *Financial Crises: Understanding The Postwar U.S. Experience* (New York: M. E. Sharpe, 1986).

Wood, John H., *A History of Central Banking in Great Britain and the United States* (Cambridge: Cambridge University Press, 2005).

Wray, L. Randall, *Modern Money Theory: A Primer on Macroeconomics for Sovereign Monetary Systems*, second edition (Basingstoke: Palgrave Macmillan, 2015).

Wray, L. Randall, ‘From the State Theory of Money to Modern Monetary Theory: An Alternative to Economic Orthodoxy’, *Levy Economics Institute of Bard College, Working Paper*, No.792, March 2014.

Wray, L. Randall and Nersisyan, Yeva, ‘Understanding Money and Macroeconomic Policy’, in Michael Jacobs and Mariana Mazzucato (eds.), *Rethinking Capitalism: Economics and Policy for Sustainable and Inclusive Growth* (Oxford: Wiley-Blackwell, 2016), pp. 47-65.

Yanai, Itai and Lercher, Martin, *The Society of Genes* (London: Harvard University Press, 2016).

Young, John M., ‘The Heath Government and British Entry into the European Community’, in Stuart Ball and Anthony Seldon (eds.), *The Heath Government 1970-1974: A Reappraisal* (Abingdon: Routledge, 2013), originally published 1996, pp.259-84.

Young, Ken, ‘A most special relationship: The origins of Anglo-American nuclear strike planning’, *Journal of Cold War Studies*, Vol.9, No.2, 2007, pp.5-31.

Yun-Casalilla, Bartolomé, O’Brien, Patrick K., and Comín, Comín Franciso (eds.), *The Rise of Fiscal States: A Global History 1500-1914* (Cambridge: Cambridge University Press, 2012).